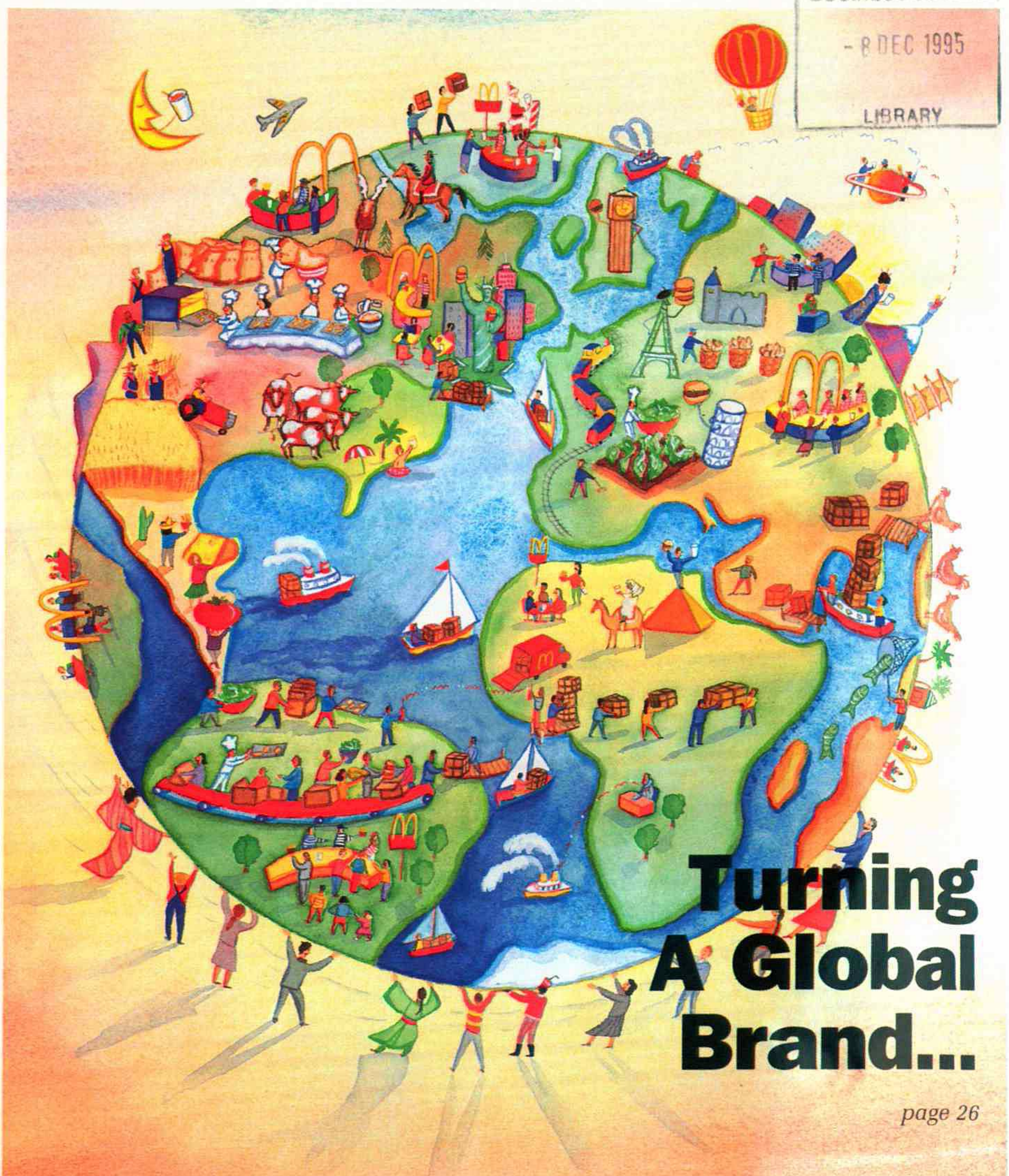
The Annual

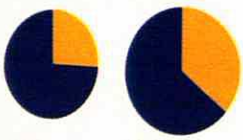
McDonald's Corporation 1994 Annual Report



Turning A Global Brand...

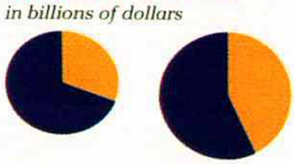
page 26

Restaurants



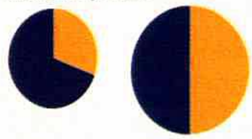
1989 11,162 — **1994 15,205**

Systemwide sales
in billions of dollars



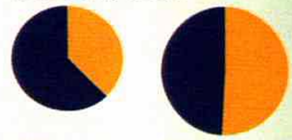
1989 $17.3 — **1994 $26.0**

Operating income
in billions of dollars



1989 $1.4 — **1994 $2.2**

Assets
in billions of dollars



1989 $9.2 — **1994 $13.6**

● *U.S.* ● *Outside of the U.S.*

11-year summary

(Dollars rounded to millions, except per common share data and average restaurant sales)

11-year summary	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
Systemwide sales	**$25,987**	23,587	21,885	19,928	18,759	17,333	16,064	14,330	12,432	11,001	10,007
U.S.	**$14,941**	14,186	13,243	12,519	12,252	12,012	11,380	10,576	9,534	8,843	8,071
Outside of the U.S.	**$11,046**	9,401	8,642	7,409	6,507	5,321	4,684	3,754	2,898	2,158	1,936
Systemwide sales by type											
Operated by franchisees	**$17,146**	15,756	14,474	12,959	12,017	11,219	10,424	9,452	8,422	7,612	6,914
Operated by the Company	**$ 5,793**	5,157	5,103	4,908	5,019	4,601	4,196	3,667	3,106	2,770	2,538
Operated by affiliates	**$ 3,048**	2,674	2,308	2,061	1,723	1,513	1,444	1,211	904	619	555
Average sales by restaurants open at least one year, *in thousands*	**$ 1,800**	1,768	1,733	1,658	1,649	1,621	1,596	1,502	1,369	1,296	1,264
Revenues from franchised restaurants	**$ 2,528**	2,251	2,031	1,787	1,621	1,465	1,325	1,186	1,037	924	828
Total revenues	**$ 8,321**	7,408	7,133	6,695	6.640	6,066	5,521	4,853	4,143	3,694	3,366
Operating income	**$ 2,241**	1,984	1,862	1,679	1,596	1,438	1,288	1,160	983	905	812
Income before provision for income taxes	**$ 1,887**	1,676	1,448	1,299	1,246	1,157	1,046	959	848	782	707
Net income	**$ 1,224**	1,083	959	860	802	727	646	549*	480	433	389
Cash provided by operations	**$ 1,926**	1,680	1,426	1,423	1,301	1,246	1,177	1,051	852	813	701
Financial position at year end											
Net property and equipment	**$11,328**	10,081	9,597	9,559	9,047	7,758	6,800	5,820	4,878	4,164	3,521
Total assets	**$13,592**	12,035	11,681	11,349	10,668	9,175	8,159	6,982	5,969	5,043	4,230
Long-term debt	**$ 2,935**	3,489	3,176	4,267	4,429	3,902	3,111	2,685	2,131	1,638	1,268
Total shareholders' equity	**$ 6,885**	6,274	5,892	4,835	4,182	3,550	3,413	2,917	2,506	2,245	2,009
Per common share**											
Net income	**$ 1.68**	1.45	1.30	1.17	1.10	.97	.86	.72*	.62	.55	.49
Dividends declared	**$ .23**	.21	.20	.18	.17	.15	.14	.12	.11	.10	.08
Total shareholders' equity at year end	**$ 9.20**	8.12	7.39	6.73	5.82	4.90	4.55	3.86	3.22	2.84	2.47
Market price at year end	**$ 29¼**	28½	24⅜	19	14½	17¼	12	11	10⅛	9	5¾
Systemwide restaurants at year end	**15,205**	13,993	13,093	12,418	11,803	11,162	10,513	9,911	9,410	8,901	8,304
Operated by franchisees	**10,458**	9,832	9,237	8,735	8,131	7,573	7,110	6,760	6,406	6,150	5,724
Operated by the Company	**3,083**	2,699	2,551	2,547	2,643	2,691	2,600	2,399	2,301	2,165	2,053
Operated by affiliates	**1,664**	1,462	1,305	1,136	1,029	898	803	752	703	586	527
U.S.	**9,744**	9,283	8,959	8,764	8,576	8,270	7,907	7,567	7,272	6,972	6,595
Outside of the U.S.	**5,461**	4,710	4,134	3,654	3,227	2,892	2,606	2,344	2,138	1,929	1,709
Number of countries at year end	**79**	70	65	59	53	51	50	47	46	42	36

**Before the cumulative prior years' benefit from the change in accounting for income taxes.*
***Restated for two-for-one common stock split in June 1994.*

1994 highlights

- **nearly $26.0 billion in Systemwide sales**
- **over $2.2 billion in operating income**
- **more than $1.9 billion in cash provided by operations**
- **over $1.2 billion in net income**
- **an asset base reaching $13.6 billion**
- **a net income per common share increase of 16 percent**

Our vision is to dominate the global foodservice marketplace by being customers' first choice and favorite quickservice restaurant. Our goals to achieve that vision have not changed–we continue to focus on improving customer satisfaction, increasing market share by accelerating expansion and by growing sales at existing restaurants, and enhancing profitability and returns.

What *is* changing, however, is the way we're managing ourselves to attain these goals and ultimately achieve our vision. It's best reflected in the way we work together to take advantage of enhanced skills, attitudes, and behaviors of all our people and to share knowledge across geographic and organizational borders. Our management of this change process is providing the energy which is propelling our people to attain our growth, today and in the future.

As the industry leader, we're embracing change from a position of strength, challenging ourselves to reach even higher levels of excellence in understanding and meeting the needs and expectations of our customers. So we're dedicating this issue of *TheAnnual* to explaining more than just *what* we're doing, but *how* we're doing it.

...Into A Global Business

The spirit of change is penetrating the entire McDonald's organization–it is as important to the way management works as a team as it is to the way restaurant crews team up to deliver satisfaction to our customers. It's a competitive advantage that will carry us into the next century and beyond as the undisputed leader in the global foodservice industry.

The effects of our commitment to change are visible in our renewed focus on our customers, our aligned work efforts, our measurement and analysis of results, our people practices, and our commitment to 100 percent customer satisfaction.

Even today, this quiet revolution is revealing some encouraging glimpses of its potential long-term impact. We believe our long-term commitment to the ongoing process of managing change will be a journey of discovery, one that provides many benefits along the way.

As a result of our change process, our customers will benefit from hotter, fresher products; friendlier service; more convenient locations; better value; and great restaurant experiences. Our employees will benefit from increased job satisfaction and better prospects for personal growth and improvement. Our System–including our franchisees and suppliers–will benefit from higher levels of customer satisfaction, greater market share, and improved profitability and employee productivity.

And our shareholders will benefit from growth in stock value, and through continued dividend and earnings increases reflecting the growth in the underlying value of the company.

Managing change is at the heart of our effort in *turning a global brand into a global business,* and we're happy to share the beginning of this journey with you.

–McDonald's Top Management Team

McDonald's is the largest and best-known global foodservice retailer, with more than 15,000 locations in 79 countries. Yet on any day, even as the market leader, McDonald's serves less than one-half of one percent of the world's population. Our outstanding brand recognition, high-quality food products, site development expertise, advanced operational systems and unique global infrastructure put us in a strong position to capitalize on this enormous market potential. We plan to expand our leadership position and, in turn, shareholder value, by adding new locations and by increasing sales, profitability and returns at existing restaurants. Our consistently high returns to shareholders–an average of 19 percent per year over the past 10 years–are a result of efforts to increase market share, profitability and customer satisfaction in pursuit of our vision to dominate the global foodservice industry.

Systemwide restaurants

at year end	1994	1989
U.S.	9,744	8,270
Outside of the U.S.	5,461	2,892
Systemwide restaurants	15,205	11,162
Countries	79	51

Europe/Africa/ Middle East	**2,197**	**993**
Andorra	1	1
Austria	56	25
Bahrain	1	0
Belgium	32	9
Bulgaria	1	0
Czech Republic	15	0
Denmark	39	11
Egypt	4	0
England	526	319
Finland	31	9
France	350	114
Germany	570	319
Greece	7	0
Hungary	27	1
Iceland	1	0
Ireland	21	10
Israel	7	0
Italy	23	5
Kuwait	1	0
Latvia	1	0
Luxembourg	3	2
Monaco	1	0
Morocco	2	0
Netherlands	110	56
Northern Ireland	7	0
Norway	20	5
Oman	1	0
Poland	23	0
Portugal	11	0
Russia	3	0
Saudi Arabia	10	0
Scotland	29	11
Slovenia	3	0
Spain	80	28
Sweden	79	38
Switzerland	49	15
Turkey	29	5
United Arab Emirates	1	0
Wales	16	8
Yugoslavia	6	2

Canada	**717**	**606**

United States	**9,744**	**8,270**

Asia/Pacific	**2,111**	**1,159**
Australia	454	243
Brunei	1	0
China	27	0
Guam	5	3
Hong Kong	82	44
Indonesia	23	0
Japan	1,133	704
Macau	4	1
Malaysia	46	23
New Caledonia	1	0
New Zealand	80	43
Philippines	55	25
Saipan	1	0
Singapore	59	32
South Korea	31	3
Taiwan	81	34
Thailand	28	4

Latin America	**436**	**134**
Argentina	44	7
Aruba	1	1
Bahamas	4	4
Barbados	0	1
Bermuda*	1	1
Brazil	149	53
Chile	11	0
Costa Rica	10	4
Cuba*	1	1
El Salvador	4	3
Guadeloupe	1	0
Guatemala	9	4
Martinique	1	0
Mexico	102	8
Netherlands Antilles	3	3
Panama	12	8
Puerto Rico	59	27
Trinidad	2	0
Uruguay	6	0
Venezuela	12	6
Virgin Islands	4	3

**U.S. Navy Base*

Compound annual growth rates

for the ten-year period ended December 31, 1994

Systemwide sales	10.0%
U.S.	6.4
Outside of the U.S.	19.0
Total revenues	9.5
Operating income	10.7
U.S.	5.4
Outside of the U.S.	22.7
Net income	12.1
Net income per common share	13.1
Cash provided by operations	10.6
Total assets	12.4
Total shareholders' equity	13.1
Total return to investors on common stock	19.0

Compound annual total return to investors

for the ten-year period ended December 31, 1994

McDonald's common stock	19.0%
Dow Jones Industrial Average	16.1
Standard & Poor's 500	14.4
Wilshire 5000	13.9
Lehman Brothers Government/ Corporate Bond Index	9.8
Donoghue Money Fund	5.9

Market price per common share**

in dollars

Quarterly stock price range
Price at quarter end
Shareholders' equity per common share at year end

McDONALD'S DETERMINATION TO MANAGE change and become a dominant global business is defined and driven by the ongoing commitment of management, led by (left to right) Jack M. Greenberg, Vice Chairman and Chief Financial Officer; James R. Cantalupo, President and Chief Executive Officer–International; Edward H. Rensi, President and Chief Executive Officer–U.S.A.; and Michael R. Quinlan, Chairman and Chief Executive Officer.

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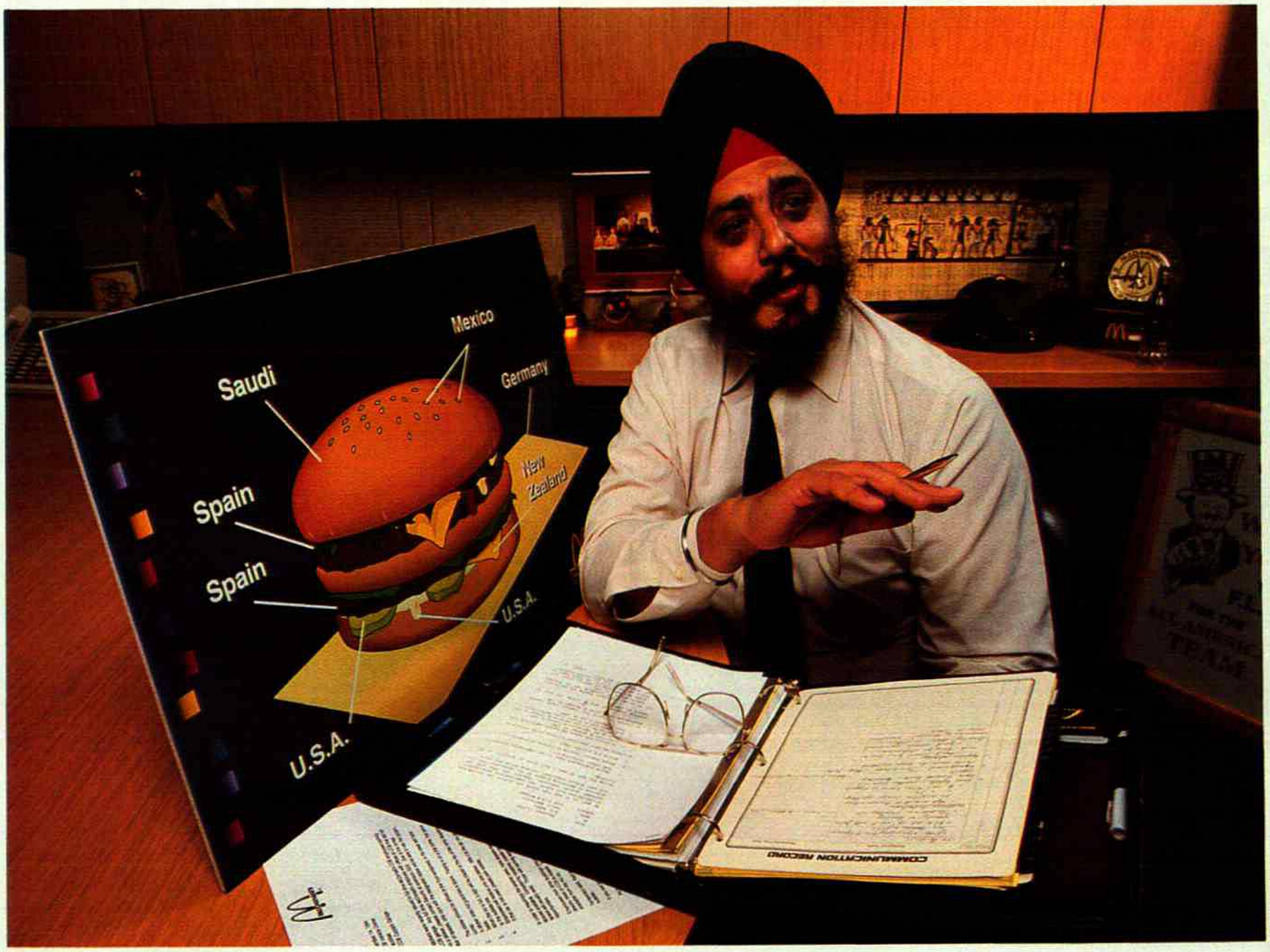

MICHAEL MAUNEY

RAPID GLOBAL EXPANSION REQUIRES finding new solutions utilizing structured problem-solving techniques when traditional methods won't work. In Saudi Arabia, for example, the scarcity of local suppliers prompted R.S. Rekhi, purchasing director for the Middle East, to utilize an enterprising team of global suppliers. As a result, the Saudi Big Mac represents a truly worldwide effort, including sesame seeds and onions from Mexico, buns made of Saudi wheat and Brazilian soy oil and sugar, beef patties and lettuce from Spain, pickles and special sauce from the U.S., cheese from New Zealand, and packaging from Germany.

McDonald's is managing change by changing the way we manage.
management McDONALD'S page 26

"We needed to reduce the cost of building new restaurants without affecting the customer's experience."
zone manager ROB DORAN page 29

"The crew satisfied customers because it was what they wanted to do, not what we told them to do."
quality coach DENISE GAYNOR page 32


FOOD QUALITY page 7


RESTAURANT ADDITIONS page 15


FRANCHISE ARRANGEMENTS page 45


40TH ANNIVERSARY page 48

TOP MANAGEMENT TEAM

O. Thomas Albrecht
Senior Vice President, Chief Purchasing Officer

Thomas B. Allin
Senior Vice President, U.S. Zone Manager

Robert M. Beavers, Jr.
Senior Vice President

Joseph M. Beckwith
Corporate Vice President

James R. Cantalupo
President and Chief Executive Officer–International

John S. Charlesworth
Senior Vice President, U.S. Zone Manager

Winston B. Christiansen
Senior Vice President

Burton D. Cohen
Senior Vice President

Michael L. Conley
Senior Vice President, Controller

Thomas S. Dentice
Executive Vice President

Carl F. Dill, Jr.
Senior Vice President

Robert J. Doran
Senior Vice President, U.S. Zone Manager

Alan D. Feldman
Corporate Vice President

Patrick J. Flynn
Executive Vice President

Thomas W. Glasgow, Jr.
Executive Vice President, Chief Operations Officer

Henry E. Gonzalez, Jr.
Corporate Vice President

David B. Green
Senior Vice President

Jack M. Greenberg
Vice Chairman, Chief Financial Officer

Robbin L. Hedges
Senior Vice President, International Relationship Partner–Europe

William K. Hockett
Corporate Vice President

Noel Kaplan
Senior Vice President, International Relationship Partner–Asia/Pacific

Debra A. Koenig
Senior Vice President, U.S. Zone Manager

Raymond C. Mines, Jr.
Senior Vice President, U.S. Zone Manager

Paul S. Preston
Senior Vice President, International Relationship Partner–Europe

Michael R. Quinlan
Chairman, Chief Executive Officer

Edward H. Rensi
President and Chief Executive Officer–U.S.A.

Peter D. Ritchie
Chairman–Australia, International Relationship Partner–Pacific

Lynal A. Root
Senior Vice President, Chairman–Purchasing Division

W. Robert Sanders
Senior Vice President, U.S. Zone Manager

Paul D. Schrage
Senior Executive Vice President, Chief Marketing Officer

James A. Skinner
Senior Vice President, International Relationship Partner–Middle East/Africa

Richard G. Starmann
Senior Vice President

Stanley R. Stein
Senior Vice President

Fred L. Turner
Senior Chairman

Delbert H. Wilson, Jr.
Senior Vice President, U.S. Zone Manager

S. Bruce Wunner
Senior Vice President, International Relationship Partner–Latin America

Shelby Yastrow
Senior Vice President, General Counsel, Secretary

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Business Consultant

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Chairman, Rio Algom Limited

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James R. Cantalupo

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Vice Chairman

Michael R. Quinlan
Chairman

Edward H. Rensi

Paul D. Schrage

Fred L. Turner
Senior Chairman

June Martino
Honorary Director

ADVISORY DIRECTORS

(Appointed by the Board for a one-year term to serve in a nonvoting capacity)

Robert J. Doran

Andreas Hacker

Paul S. Preston

James T. Rand

INQUIRIES

Shareholders
For inquiries regarding reinvestment and payment of dividends, consolidation of accounts, address corrections, changes of registration, stock certificate holdings and McDonald's System Stock Purchase Plan, call:

First Chicago Trust Company
U.S. and Canada 1-800-Mc1-STCK (1-800-621-7825)
Other countries 1-201-222-4990 (Call collect)

or send an Internet message to First Chicago via mcdfct @ ibm.net

Individual Investors
1-708-575-7428

Stockbrokers
1-708-575-5137

Investor Newsline
1-708-575-6543

Customers And General Public
1-708-575-6198

Financial Media Relations
1-708-575-6150

U.S. Franchising
1-708-575-6196

International Franchising
1-708-575-6112

Nutrition Information Center
1-708-575-FOOD

SHAREHOLDER INFORMATION

Registrar; Stock Transfer, Dividend Disbursing And Reinvestment Agent
McDonald's Shareholder Services
First Chicago Trust Company
P.O. Box 2591
Jersey City NJ 07303-2591

Home Office
McDonald's Corporation
McDonald's Plaza
Oak Brook IL 60521
1-708-575-3000

Annual Shareholders' Meeting
May 26, 1995
10:00-11:30 AM (CDST)
McDonald's Office Campus
Oak Brook IL

The**Annual**

EDITOR-IN-CHIEF
Jack M. Greenberg

MANAGING EDITOR
Sharon L. Vuinovich

ASSISTANT MANAGING EDITOR
Charles L. Rubner

EDITORIAL CONSULTANT
Robin E. Johnson

COVER
Illustrations by Lonni Sue Johnson, a freelance book, magazine, and newspaper illustrator, who works and lives in Connecticut and New York.

PHOTO
Photography on page one by Michael Mauney, a Chicago-based photographer who specializes in photographing people.

BY LINE
Articles by Arthur Miller, a former newspaper editor and business communicator, who is now an independent writer based in Illinois.

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Printed on Recycled Paper
35% post-consumer content
15% post-consumer de-inked content
50% pre-consumer content

¡Qué chiquito es el mundo! Mira que encontrarme a Rubén aquí en Estados Unidos después de tanto tiempo.

Yo estaba almorzando con una compañera del trabajo en el McDonald's de aquí a la vuelta y lo vi entrar.

"Rubén", le grité.

"¡Ernesto!", y nos dimos tremendo abrazo.

"¿Qué haces aquí?", pregunté

"Lo mismo que tú, a punto de comerme un Big Mac", me contestó vacilándome como lo hacía antes.

Me contó que se casó con Lupe, su novia de toda la vida, que tienen dos niñas preciosas y que lo acaban de transferir aquí a Estados Unidos.

Y así se nos pasó el tiempo.

Si no hubiera sido porque teníamos que regresar a trabajar, nos hubiéramos quedado el resto de la tarde platicando en McDonald's.

¡Qué agradable reencontrarnos!

Cómo se antoja™

McDonald's®

"A Moment Like This, Only At McDonald's."

VALUE FOR A GROWING FAMILY

On behalf of our six children, including the quintuplets who were featured in the previous edition of *TheAnnual,* we'd like to thank you for letting us share the family joy we feel; and for calling attention to the special challenges of providing for a growing family. We continue to appreciate the value McDonald's provides, and we expect our family will always be a part of the McDonald's family–as customers and as shareholders.

Sidney and Suzanne Gaither
Indianapolis, Indiana

SENIORS ENJOY PARTY SCENE

We are a couple of senior citizens and our granddaughter introduced us to McDonald's when she had her birthday party at the restaurant in Viernheim. We were very pleasantly surprised at the handling and carrying out of the event, including a kitchen tour, games, presents, and the patience of the employees. Since then we stop at McDonald's every time before shopping in the nearby centre. The staff is very friendly and the restaurant is clean. We totally agree with your slogan, "It's good that there's McDonald's"–as our granddaughter does too.

Mr. and Mrs. Karl-Heinz Lorenz
Schriesheim, Germany

SMALL ENOUGH TO STILL CARE

I'm lucky enough to have my 17-year-old daughter working at "my" McDonald's–what better place for her to learn work ethics and dedication. McDonald's may be big enough to be a worldwide franchise, but it sure is small enough to still care. The girls and guys in the crew are just great–they always have a kind word and a friendly smile.

Shelley Williams
Winslow, Maine

A VERY SPECIAL LADY

I am writing to let you know about a very special lady at your restaurant, Patty Smulski. When we first met her at our McDonald's restaurant, we got to talking about our family and how we had just returned from the Ronald McDonald House in Columbia, Missouri, for my five-year-old son Ryan, who was born with cancer. Since then, Patty has become a true and special friend to our family and especially to Ryan. She has laughed, cried, and supported us far beyond being an employee of McDonald's.

Tamara Rentchler
Springfield, Missouri

MANAGER SAVED THE DAY

Perhaps I was too rushed and hungry when I went to McDonald's for lunch, but I carelessly got on the wrong footstep and all my food flew out of my hands. Immediately, the branch manager ran to help me, cleaned up all the food on the floor, and asked me to take a seat so he could let me have a new, fresh meal. His performance was quite efficient and well considered–I was really appreciative.

Caroline Chan
Kowloon, Hong Kong

HOW ARE WE DOING?

We're interested in your thoughts as shareholders about McDonald's. You can write to us in care of Investor Relations, McDonald's Corporation, McDonald's Plaza, Oak Brook IL 60521.

Advertisement from New Zealand.

Achieving Global Dominance

McDonald's vision is to dominate the global foodservice industry. To achieve our vision, we will focus intensely on customer satisfaction, market share and profitability. Supporting this focus are three competitive strategies and two leadership strategies which together should grow our business and produce returns for shareholders.

Strategies widen gaps between McDonald's and competitors

McDonald's is not satisfied with today's global leadership position. We want to increase the existing gaps between us and our competitors in every market around the world. We define our competition broadly–quickservice eating establishments, take-outs, pizza parlors, coffee shops, street vendors, convenience food stores, delis, supermarket freezers and microwave ovens. The strategies to increase our competitive lead are Execution, Convenience and Value.

EXECUTION

Operational Excellence

A combination of strict standards, proven operating procedures, and thousands of dedicated employees, franchisees and suppliers throughout the world provide McDonald's with distinct advantages in cultivating a customer base which is satisfied and loyal. Our Execution Strategy leverages these operational strengths.

Nothing Less Than 100%

McDonald's will settle for nothing less than 100% customer satisfaction. We are committed to providing a 100% McDonald's experience on every visit, for every customer, in every market. Our Execution Strategy identifies seven initiatives that will provide a 100% experience: hot and tasty food, fast service, food safety, accurate orders, friendliness, employee satisfaction and merchandising.

McDonald's restaurants resemble 15,000 distinct customer satisfaction departments–each providing direct and immediate feedback on how well we deliver our operations initiatives.

Our restaurants use customer feedback tools to quantify and measure customer satisfaction, positioning us for continuous improvement. Customer feedback, for example, was an impetus in recent improvements to personalize and improve the accuracy of our drive-thru service.

Hotter, Fresher, Faster

McDonald's provides the taste customers want, which means focusing on our core menu of burgers, chicken and breakfast. Due to advanced tools and technology such as our enhanced production package, McDonald's food is hotter and fresher, and served faster than ever.

McDonald's earns the confidence of customers by serving only safe, high-quality products. Stringent product specifications and standards are strictly enforced. Quality assurance centers in the U.S., Europe and Asia work closely with our global suppliers, conducting product testing and on-site inspections of their facilities. We also monitor food preparation, cooking, and equipment maintenance procedures in our restaurants.

McDonald's supports well-balanced nutritional habits. For over 20 years, we have made nutrition and ingredient information available on our products so customers can make informed decisions about how our food can be part of a healthy diet. We also work with

healthcare professionals and associations. For example, we teamed with the Food and Drug Administration in 1994 to develop a "Nutrition Facts" trayliner.

15,000 Training Centers

Operational excellence is taught in McDonald's 15,000 training centers–our restaurants–where day-to-day coaching and shoulder-to-shoulder interaction between management and crew emphasize customer satisfaction skills. Training is enhanced through interactive technology. In 1994, we tested a new learning tool which simulates customer visits at the drive-thru, front counter and dining room, and shows restaurant employees the consequences of their responses.

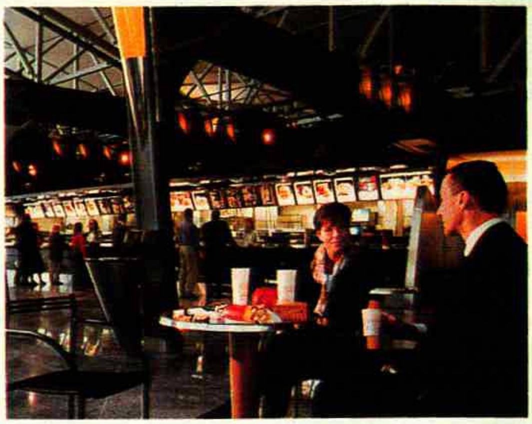
Once employees progress to the level of assistant restaurant manager, they are eligible to attend our two-week advanced operations and management class at one of five Hamburger University (HU) campuses in the U.S., Germany, England, Japan and Australia. Every year, HU instructors train more than 3,000 students in 22 languages.

Our training is focused on restaurant-level employees due to their direct interaction with customers. However, suppliers, franchisees and management regularly attend and recycle through HU to keep their operational skills current.

CONVENIENCE

Optimized Market Penetration

McDonald's wants to have a presence wherever people live, work, shop, play or gather. Our Convenience Strategy is to monitor the changing lifestyles of consumers and intercept them at every turn. As we expand customer convenience, we gain market share.



THE SECOND McDONALD'S AT THE FRANKFURT AIRPORT is Germany's largest, seating 520 customers. Our Convenience Strategy brings McDonald's to wherever people live, work, shop, play or gather, expanding our foodservice to many different locations.

Targeting The World

On any day, McDonald's serves less than one-half of one percent of the world's population. This means that more than 99.5% of this population, or over 5 billion people, represent our target market. Specifically in the U.S., about 378,000 restaurants generate nearly $224 billion in annual sales. McDonald's accounts for about 2.6% of those restaurants and 6.7% of those sales. That leaves 93.3%, or nearly $210 billion, to target for market share growth.

Sites for restaurant expansion are determined using detailed demographic and socioeconomic analyses combined with profit optimization techniques. We have identified numerous opportunities for further market penetration in the U.S. and other developed countries, including regional and community shopping centers, downtown business districts and small towns. In less developed countries, opportunities abound.

Over the past three years, we have nearly doubled our global expansion. Over the next several years, we expect to add 1,200 to 1,500 restaurants annually–about one-third in the U.S. and two-thirds outside of the U.S. We have a record of meeting our expansion targets, and raising them from time to time.

VALUE ADDED

	1993 1st	1993 2nd	1993 3rd	1993 4th	1994 1st	1994 2nd	1994 3rd	1994 4th
High	$27 1/8	$26 3/4	$27 3/4	$29 1/2	$31 1/4	$31 3/8	$29 3/4	$29 7/8
Low	23 3/8	22 3/4	24 1/8	25 5/8	27 1/4	27 5/8	25 5/8	25 7/8
Close	26 3/8	24 1/2	25 7/8	28 1/2	28 3/8	28 7/8	26 3/8	29 1/4

Shareholders at year end

1993	1994
459,288	529,32[illegible]

McDonald's stock value continues to grow. *Our investor base also increases, reflecting confidence in our future.*

From Hospitals To Wal★Marts

Recent technological breakthroughs in site development have greatly improved our ability to profitably bring the McDonald's experience to more locations. New efficient building designs, standardized equipment packages and global sourcing have drastically reduced development costs. The re-engineering and standardization of our fabricated kitchen equipment alone cut $30,000 to $50,000 from the cost of equipping a restaurant. In the U.S., average restaurant development costs declined from nearly $1.6 million in 1989 to less than $1.1 million in 1994. In our five largest majority-owned markets outside of the U.S., average restaurant development costs have declined approximately one-third since 1991.

These efficiencies have allowed us to increase convenience by adding McDonald's restaurants in more non-traditional locations such as hospitals, airports, schools, military bases and tollways.

Convenience is also enhanced through our ability to determine an appropriate market mix of traditional

restaurants and satellites, smaller locations which serve simpler menus. By leveraging the infrastructure of existing restaurants, satellites generate excellent returns. Examples include a kiosk which serves desserts in an amusement arcade in England and a mobile unit at a winter mountain resort in Brazil. We expect to open about 1,000 satellites around the world in 1995.

Key to our aggressive satellite program are alliances with retailers and oil companies. During 1994, we opened McDonald's satellites in 377 Wal★Marts; at year-end, we operated in 459 Wal★Marts throughout the U.S., Canada, Mexico and Puerto Rico. The U.S., Finland, Denmark and Italy now have McDonald's in service stations.

VALUE

Lower Costs, Higher Sales And Profits

The Value Strategy utilizes McDonald's economies of scale to minimize costs per transaction, maximize value, and grow sales and profits. We strive to operate low-cost restaurants and to gain a margin advantage over competitors. This allows us to deliver value to our customers.

Low-Cost Approach

McDonald's owns approximately 60% of our sites around the world and secures long-term leases where ownership is not feasible. This provides a distinct advantage over competitors who are not able to control occupancy costs. In addition, our restaurants handle a far larger number of transactions than competitors, providing a lower cost per transaction.

Key components of our low-cost approach are reduced development costs, previously discussed under our Convenience Strategy, global sourcing–the consolidation and leveraging of our sources of supply–and other cost-reduction initiatives. With annual purchases of about $8 billion in food, paper and restaurant equipment through thousands of suppliers around the world, we are in a unique position to reduce costs and deliver value to customers.

Global sourcing and other cost-reduction initiatives implemented in 1994 generated savings of more than $200 million. Far exceeding any other restaurant and all but a handful of consumer companies, McDonald's low-cost, high-quality, flexible global supply infrastructure allows us to secure the lowest delivered cost without sacrificing quality and customer satisfaction.

Beyond Value Pricing

Lower costs allow us to provide value to customers, maximizing transactions, sales and profitability. Our Happy Meals and Extra Value Meals increase in popularity every year. Currently in the U.S., sales of Happy Meals comprise nearly 200 out of every 1,000 regular menu transactions. Extra Value Meals are included in more than half of regular menu transactions in the U.S., up from 20% when they were first introduced in 1991. Outside of the U.S., value meal programs are also highly successful. Argentina, South Korea, Mexico and Portugal, to name a few, sell a higher proportion of value meals than the U.S.

While McDonald's strives to be the industry standard bearer of value, we differentiate our-

EXTRA VALUE MEALS REMAIN AN IMPORTANT ELEMENT OF OUR Value Strategy. Value means more than price–it includes taste and service–making the totality of the McDonald's experience a better value than our competitors.

Translation of Hungarian ad on page 19. Experience the poetry of McDonald's food.

GOOD THINGS SPEAK FOR THEMSELVES

These tiny, smiling volunteers
standing in a regular battle line
are sesame seeds.

They give a special flavor to the fresh bun
that is made of the legendary
tasty Hungarian wheat.
Those sesame seeds are the jewels
of the Big Mac
on the top of the crown.

The scent and taste of the beef patties
are inimitable
due to the 100% beef raw material
and grilling without fat.

The natural tomato sauce.

The slice of cheese.

Just for the special purpose
made of cheddar cheese
which is a golden sliced cheese
that is melted on the meat
but never slides off.

As you would expect the fresh lettuce.
Crispy and healthy.

The typical flavor of Big Mac
is brought to perfection
by the special sauce.
Its recipe won't be told
–not even to you!

And again the crumbly, soft bun
made of the best wheat.
It lies between the two
brimming, tasty layers.

Then under it there comes
the juicy brown beef patty that was
grilled some seconds ago
in its own aroma.

And on it again the lettuce
reminding us
of spring and vegetable gardens.

The sauce and
melted golden cheddar cheese.

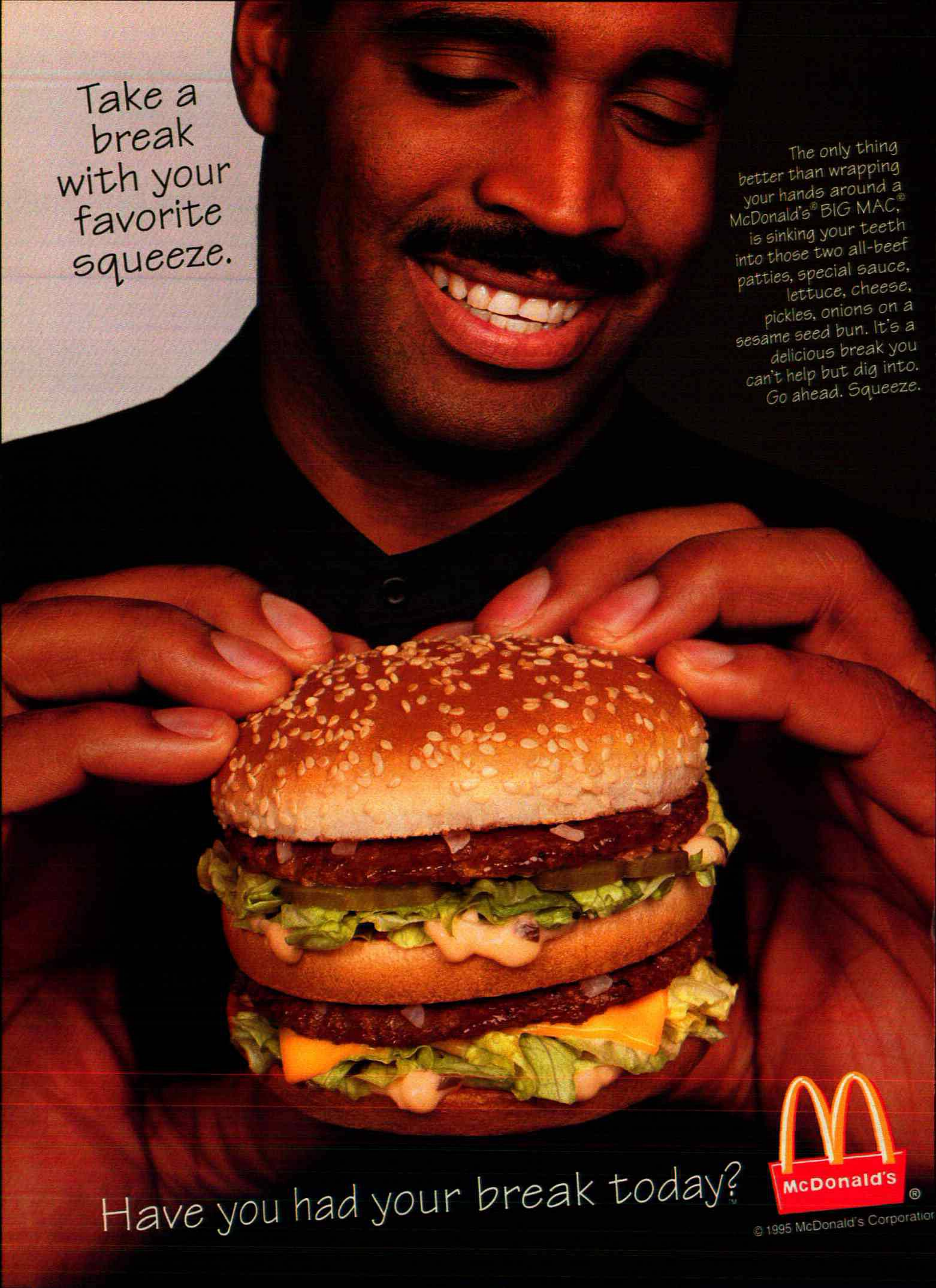
The small piece of lettuce
hanging out of the bun.

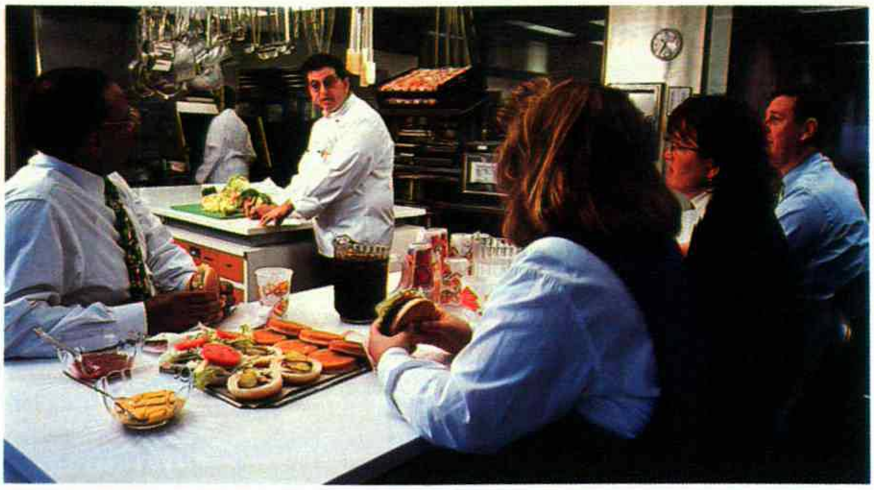
The sauce that reminds us
of hot summer days.

This delicate, fantastic masterpiece
is standing on the noble, crispy
golden base of the bun.

We need only to open our mouths
very wide
so that we can enjoy the flavor
of every layer in that very first bite
that makes us take a decision.
Even if some crumbs are falling down
in between . . .

Where it is good to stay,
where it is good to eat.


Take a break with your favorite squeeze.
The only thing better than wrapping your hands around a McDonald's® BIG MAC,® is sinking your teeth into those two all-beef patties, special sauce, lettuce, cheese, pickles, onions on a sesame seed bun. It's a delicious break you can't help but dig into. Go ahead. Squeeze.
Have you had your break today?™
McDonald's®
© 1995 McDonald's Corporation



OUR LEADERSHIP STRATEGIES ENCOURAGE CROSSFUNCTIONAL AND CROSSCULTURAL teamwork. A menu optimization team headed by Chef Andrew Selvaggio, above, applies our Customer Perspective Strategy to develop a new burger with special toppings.

selves from competitors by taking a more expansive approach to value.

For us, value is more than low prices and special offers. It is taste, service and all other experiences that make customers think of McDonald's as a better value than our competitors. Thus, regardless of how others price, they can never recreate the value of the McDonald's experience.

We reinforce our value message through innovative marketing programs. These include television advertising, point-of-purchase merchandising, participation in major sporting and entertainment events and promotional campaigns. Profitable 1994 promotions in the U.S. included a McWorld sweepstakes, which offered chances to win free trips for teenagers; NBA and Dream Team II promotions; and a Music Event, which offered four artist collections. Promotions outside of the U.S. included the Flintstones in more than 30 countries, and Toon Town Plush Disney in Asia. And for the first time, we embarked on a truly global marketing effort with sponsorship of World Cup Soccer, distinguishing McDonald's as a citizen of the world, rather than as a U.S. multinational, in a way only available to a global brand.

Another example of how McDonald's gained high visibility in 1994 was our bold step onto the information superhighway. Teaming with NBC, we interacted with America Online's one million subscribers, offering product information, Ronald McDonald coloring books, the first live multimedia commercial, a board game, and the most successful auditorium event in history. McDonald's in Cyberspace will be even busier in 1995.

Systemwide advertising and promotion expenditures were approximately $1.5 billion, or 5.8% of sales in 1994. Funding for promotions is handled at the restaurant level, while funding for regional and national efforts is handled through advertising cooperatives. Using contributions from our restaurants around the world, these cooperatives make media purchases in a cost-effective manner.

Leadership strategies focus on common goals

The McDonald's System is comprised of restaurant owner/operators, employees and suppliers. The System competes across a wide variety of cultural, geographic and economic boundaries through a sophisticated global business infrastructure. Our Customer Perspective and Alignment Strategies assure the System operates at maximum efficiency by identifying common goals.

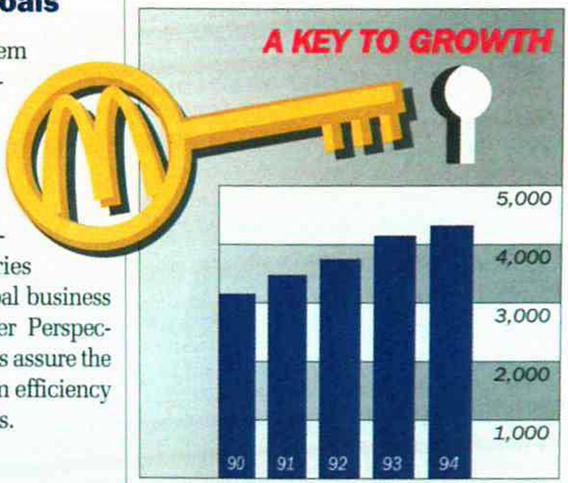
CUSTOMER PERSPECTIVE
Looking Outward

This strategy is our window from which we will continually view the needs, trends, and tastes of our customers, assess the competitive landscape, and protect our brand image.

Crosscultural, Crossgenerational Appeal

The strength of the McDonald's brand transcends geographic boundaries, cultures, languages, and economic and competitive situations. According to the American Marketing Association (AMA) upon our 1994 induction into the Marketing Hall of Fame, the McDonald's brand is "inextricably woven into the fabric of American business, culture and lifestyle." The AMA noted that few, if any, brands have such crosscultural, crossgenerational appeal. This acclaim is confirmed outside of the U.S.; Sweden's leading business magazine this year named McDonald's the strongest brand out of 218 there.

Our Customer Perspective Strategy is the means by which McDonald's increases the value of our brand. All interactions with customers convey our brand profile as the best, friendliest, most enjoyable restaurant. We integrate our brand into people's lives, hopes and dreams through balancing promotional advertising with reputation messages. In addition, we use our restaurants as primary merchandising vehicles. We now have 15,000 billboards across the world broadcasting our brand: its global appeal, a great place for families and kids, convenience, great food, and value.



McDonald's franchising emphasis supports the global business.
Our 4,300 franchisees are carefully selected and benefit from our expertise and training.

ALIGNMENT

Shared Goals

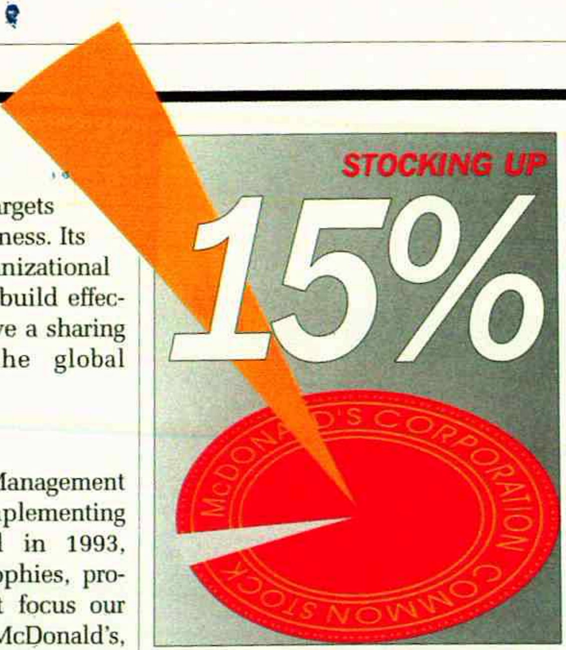
Our Alignment Strategy targets the people side of our business. Its mission is to define organizational roles and responsibilities, build effective leadership, and achieve a sharing of goals throughout the global McDonald's System.

Quality In All We Do

McDonald's Quality Management process (MQM) is key to implementing this strategy. Introduced in 1993, MQM defines the philosophies, processes and behaviors that focus our System on quality. At McDonald's, quality means meeting customers' requirements 100% of the time. A prerequisite, we believe, is employee satisfaction.

Supporting this strategy is the new Center for Corporate Training and Education (CCTE). While Hamburger University trains restaurant staff in operational excellence, the CCTE's new core curriculum trains corporate staff in problem-solving tools, process re-engineering concepts, benchmarking techniques, and effective management practices.

Improved communications processes also help develop shared goals. During 1994, McDonald's established a lane on the communications superhighway with McDonald's Communications Network (MCN), a video satellite network designed to foster interaction through one-way video and two-way audio communications. By year-end 1994, live broadcasts were tested in over 350 restaurants and regional offices across the U.S. Benefits include improved decision-making and the ability to mobilize our System at reduced time and cost.



Stock ownership links the interests of the System to shareholders. *About 15% of McDonald's common stock is owned by employees, franchisees, and suppliers.*

McDONALD'S WELCOMED LINES OF CUSTOMERS UP TO seven miles long on opening day in five Middle Eastern countries: Egypt (above), Oman, Kuwait, Bahrain and the United Arab Emirates. Other new countries opened in 1994 were Bulgaria, Trinidad, New Caledonia and Latvia.

Unleashing The McFamily

Our Alignment Strategy is designed to unleash the power of our McFamily. The McFamily encompasses various business structures which provide flexibility for growth: Company operations, franchising, joint ventures, developmental licenses, and management agreements. In markets that are well developed, restaurants are operated by the Company, franchisees or joint ventures. The other operating arrangements apply to newly developing markets or those with restrictions on foreign ownership.

McDonald's operates restaurants for several reasons. They are a conduit for people development, they provide a research and development laboratory for ideas, and they link corporate interests with those of franchisees. And of course, they contribute to consolidated profits.

McDonald's franchising program is one of our greatest assets; it is the most effective way to grow our business. About 70% of McDonald's restaurant businesses are franchised to more than 4,300 owner/operators around the world. About 400 franchisees joined our System during 1994. We are highly selective in granting franchises. Only highly motivated, talented entrepreneurs with extensive business experience are recruited and trained to become active, on-premise owners of McDonald's restaurants.

Our unique relationship with franchisees differentiates us from competitors. McDonald's franchisees are encouraged to exercise their entrepreneurial talent, contribute ideas, participate in task forces, and share in the rewards of the System. In turn, they benefit from McDonald's world-renowned trademarks, extensive support network, and marketing and operational expertise. ●

Strategies build shareholder value

Our strategies continue to produce financial success. The quarter ended December 31, 1994, was McDonald's 119th consecutive quarter of record Systemwide sales and earnings. Earnings are projected to grow at a compound annual rate in the teens over the next five years.

Free Flowing Cash

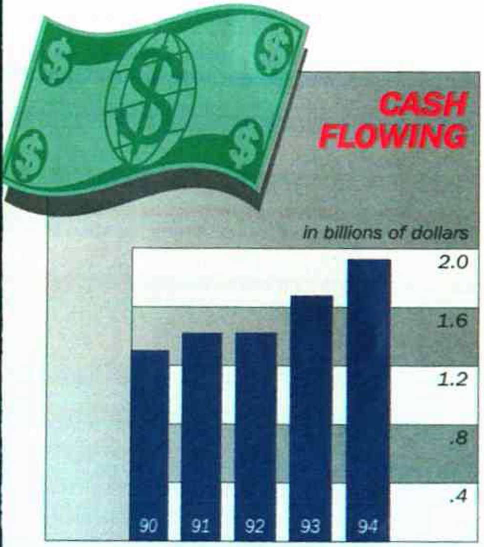
Consistent earnings growth has continuously improved McDonald's cash flow. Over the last five years, we generated $7.8 billion in cash provided by operations, contrasted with $5.1 billion in the previous five years. We have used our impressive cash flow to build returns to shareholders in several ways.

First, we reinvest in our business. In line with our Convenience Strategy, we add new restaurants and make investments in existing restaurants to build sales, profits and returns. While our U.S. business remains the major source of cash flow, more than half of our investments are made outside of

the U.S., where returns are generally higher and opportunities are vast. Our high returns on assets and equity reinforce the benefits of this reinvestment.

Lower development and operating costs stemming from our Value Strategy have, since 1991, created a situation whereby cash from operations exceeds capital expenditures. Our share repurchase program takes advantage of this excess cash flow to increase returns to shareholders. In the past 10 years, we have repurchased nearly \$2.6 billion of our stock, and are currently halfway through a \$1.0 billion program announced in January 1994 to be completed within three years. Shareholders benefit because future profits will be spread over fewer shares, making each share more valuable.

In addition, we return dollars to shareholders through dividends. Since our first dividend in 1976, we have paid 75 consecutive dividends and increased the per share amount 20 times. Typical of growth companies, the dividend portion of our total return to shareholders remains low relative to the appreciation of our stock; dividends represented only one percentage point of our compound annual return on common stock for the 10 years ended December 31, 1994, which was 19%.



McDonald's global business generates increasing cash flow.
We deploy this cash flow to maximize long-term returns to shareholders.

Accepting Global Responsibility

McDonald's is committed to being a good corporate citizen, which we define as treating people with fairness and integrity, sharing our success with the communities in which we do business, and being a leader on issues that affect customers.

Steward Of The Environment

Our customers' quality of life tomorrow will be affected by our stewardship of the environment today. McDonald's innovative environmental efforts target restaurants, suppliers and customers throughout the world. The results of our initiatives to reduce, reuse and recycle have been significant. In 1994, we globally reduced 2,200 tons of packaging and used more than 300,000 tons of recycled packaging. We recently attained our target of purchasing \$1 billion of recycled materials five years ahead of schedule.

We also accomplish global environmental improvements through partnerships and public education. In 1994, we coordinated the first McDonald's European Environmental Partnership Conference, where two McDonald's suppliers shared top environmental achievement awards. We teamed with the U.S. Postal Service to sponsor an environmental design contest in schools; the winning designs will appear on four new postage stamps to be released on Earth Day in 1995.

Employer Of Choice

Our statement of employment practices describes our responsibility to both present and prospective employees. We offer wages that are fair, equitable and nondiscriminatory; we ensure a working environment which teaches job skills and rewards both individual and team performance; and we offer career opportunities. In 1994, McDonald's received the Employer of Choice Award sponsored by *Restaurant Business* based in part on responses by our restaurant employees. We are proud that many members of our top management team started their careers as crew in our restaurants.

McFamily Of Diversity

McDonald's embraces the benefits of diversity in employee, franchisee and supplier communities. We take extra steps to attract, retain and develop the potential of all employees without regard to race, sex, religion, ethnic or cultural background. Presently, over 50% of middle management employees and over 60% of franchisees in training are females and minorities. McDonald's franchisees represent the largest and most successful group of minority entrepreneurs in the U.S.

Also, we have programs to increase the amount of goods and services purchased through women- and minority-owned businesses, which totaled over one-half billion dollars in 1994. In honor of our program to foster leadership development of women, we received the 1994 Catalyst Award.

Friend To Children

The mission of Ronald McDonald Children's Charities (RMCC) is to "lift kids to a better tomorrow". RMCC makes grants for programs that benefit children in such areas as healthcare and medical research, civic and social services, and arts and education. At the national level, about 2,300 grants totaling nearly \$80 million have been made. RMCC also supports the American Red Cross, through which we provided relief to thousands of families affected by floods, hurricanes and earthquakes.

As the cornerstone of RMCC, the Ronald McDonald House program aids more than 2,500 families every night. At year-end 1994, there were 163 houses in 12 countries, each providing a home-away-from-home for families of seriously ill children receiving treatment at nearby hospitals.

Analyzing Financial Performance

Consolidated operating results

INCREASES (DECREASES) IN OPERATING RESULTS OVER PRIOR YEAR

(Dollars rounded to millions, except per common share data)	1994 Amount	1994 %	1993 Amount	1993 %
Systemwide sales	**$2,401**	**10**	$1,702	8
Revenues				
Sales by Company-operated restaurants	**$ 636**	**12**	$ 55	1
Revenues from franchised restaurants	**277**	**12**	220	11
Total revenues	**913**	**12**	275	4
Operating costs and expenses				
Company-operated restaurants	**481**	**12**	38	1
Franchised restaurants	**55**	**14**	32	9
General, administrative and selling expenses	**142**	**15**	81	9
Other operating (income) expense—net	**(22)**	**35**	2	(3)
Total operating costs and expenses	**656**	**12**	153	3
Operating income	**257**	**13**	122	7
Interest expense	**(10)**	**(3)**	(58)	(15)
Nonoperating income (expense)—net	**(56)**	**NM**	48	NM
Income before provision for income taxes	**211**	**13**	228	16
Provision for income taxes	**69**	**12**	104	21
Net income	**$ 142**	**13**	$ 124	13
Net income per common share*	**$ .23**	**16**	$ .16	12

NM - Not Meaningful

** Restated for two-for-one common stock split in June 1994.*

SYSTEMWIDE SALES AND RESTAURANTS

Systemwide sales are comprised of sales by restaurants operated by the Company, franchisees and affiliates operating under joint-venture agreements between McDonald's and local businesspeople. The 1994 increase was due to expansion, higher sales at existing restaurants and stronger foreign currencies, negatively affected in part by severe weather conditions worldwide in early 1994. The 1993 increase was due to expansion and higher sales at existing restaurants, offset in part by weaker foreign currencies and one less day in 1993 since 1992 was a leap year. Sales by Company-operated restaurants grew at a faster rate than Systemwide sales in 1994 because Company-operated expansion advanced at a faster rate than Systemwide expansion. Sales by Company-operated restaurants grew at a slower rate than Systemwide sales in 1993 because weaker foreign currencies had a greater impact on sales by Company-operated restaurants than on Systemwide sales, and because of a greater number of franchised restaurants resulting from expansion.

Average sales by restaurants open at least one year (excluding satellites) were $1,800,000 in 1994, $32,000 above 1993. Average sales in both the U.S. and outside of the U.S. improved through the emphasis on value and customer satisfaction.

Expansion continued at an accelerated pace as 1,212 restaurants (excluding satellites) were added in 1994, compared with 900 in 1993 and 675 in 1992. Restaurants opened during the year (excluding satellites) contributed $799 million to Systemwide sales in 1994, $572 million in 1993 and $478 million in 1992. McDonald's plans to add between 1,200 and 1,500 restaurants (excluding satellites) around the world in 1995 and in each of the next several years. The mix of net additions remains at one-third in the U.S. and two-thirds outside of the U.S.

Our global expansion plan also includes satellites—food-service facilities that leverage the infrastructure of existing restaurants by using their storage capability and inventory, and by drawing on their management talent and labor pool. During 1994, 575 satellites were added around the world; we expect to open approximately 1,000 satellites in 1995. The consolidated financial statements reflect the operating results of satellites on the same basis as traditional restaurants; the results of satellites operated by the Company are included in sales by and costs of Company-operated restaurants, while those operated by franchisees are included in revenues from and costs of franchised restaurants. Satellites in operation contributed $150 million to Systemwide sales in 1994. The operating results of satellites were immaterial to consolidated operating results.

TOTAL REVENUES

Total revenues consist of sales by Company-operated restaurants, and fees from restaurants operated by franchisees and affiliates based upon a percent of sales with specified minimum payments. The minimum fee is comprised of both a rent and service fee amount at a combined rate of approximately 12.5% of sales for new U.S. franchise arrangements. Prior to 1994 and since 1987, the minimum fee generally was a combined 12.0% for both rent and service fees. Higher fees are charged for sites that require a higher investment on the part of the Company. Fees paid by franchisees outside of the U.S. vary according to local business conditions. These fees, together with occupancy and operating rights, are stipulated in franchise arrangements that generally have 20-year terms, and provide a stable, predictable revenue flow to the Company.

Revenues grow as locations are added and as sales build in existing locations. Menu price adjustments affect revenues as well as sales; however, due to different pricing

structures, new products, promotions, and product mix variations among markets, it is impractical to quantify the impact of menu price adjustments for the System as a whole.

The rate of increase in total revenues in 1994 was greater than the rate of increase in Systemwide sales due to strong global operating results and an increase in the Company-operated restaurant base through expansion and changes in ownership. The rate of increase in total revenues in 1993 was lower than the rate of increase in Systemwide sales due to weaker foreign currencies which had a greater impact on revenues than on Systemwide sales, and because of a greater number of franchised restaurants resulting from expansion.

Growth rates in sales by Company-operated restaurants and revenues from franchised restaurants varied in 1993 because of expansion and changes in ownership and because sales by Company-operated restaurants were impacted to a greater degree by changing foreign currencies than were revenues. In 1994, about 56% of sales by Company-operated restaurants and 37% of revenues from franchised restaurants were outside of the U.S., compared with 53% and 33%, respectively, in 1993.

I believe being customer-driven is the key to success. It means finding out what our customers really want and delivering an experience in each of our worldwide restaurants that satisfies what they say they expect from McDonald's. It's simple–when we focus on the customer, everything else falls into place.

Chairman and Chief Executive Officer, Shareholder

RESTAURANT MARGINS

Company-operated margins were 19.8% of sales in 1994, compared with 19.2% in 1993 and 19.1% in 1992. In 1994, as a percent of sales, food and paper, and occupancy and other operating costs declined, while payroll costs increased. In 1993, as a percent of sales, food and paper costs rose, while occupancy, other operating and payroll costs declined.

Franchised margins comprised about two-thirds of the combined operating margins. Consolidated franchised margins were 82.8% of applicable revenues in 1994, compared with 83.1% in 1993 and 82.8% in 1992. The 1994 decrease reflected a higher proportion of leased sites resulting from accelerated expansion and satellite development, as financing costs embedded in operating leases were included in rent expense which does not occur if a site is owned.

Franchised margins include revenues and expenses associated with restaurants operating under business facilities lease arrangements. Under these arrangements, the Company leases the businesses—including equipment—to franchisees who have options to purchase the businesses. While higher fees are charged under these arrangements, margins are generally lower because of equipment depreciation. When these purchase options are exercised, resulting gains compensate the Company for lower margins prior to exercise and are included in other operating (income) expense—net. At year-end 1994, 476 restaurants were operating under such arrangements, compared with 544 and 583 at year-end 1993 and 1992, respectively.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

The 1994 increase was primarily due to strategic global investment spending to support expansion and value, and a one-time, noncash $15 million charge related to the early implementation of a new accounting rule regarding the timing of expensing advertising production costs. The 1993 increase was primarily due to higher employee costs associated with expansion and key priorities, partially offset by weaker foreign currencies. These expenses as a percent of Systemwide sales have remained relatively constant over the past five years, and were 4.2% in 1994 and 4.0% in 1993.

OTHER OPERATING (INCOME) EXPENSE—NET

This category is comprised of transactions which relate to franchising and the foodservice business such as gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, and net gains or losses from property dispositions. The 1994 income increase reflected higher gains on sales of restaurant businesses and higher income from affiliates, offset in part by higher losses on property dispositions. The 1993 and 1992 amounts were relatively constant, reflecting greater income from affiliates and gains on sales of restaurant businesses in 1993, and by the favorable settlement of a sales tax case in Brazil in 1992.

Gains on sales of restaurant businesses include gains from exercises of purchase options by franchisees operating under business facilities lease arrangements and from sales of Company-operated restaurants. As a franchisor, McDonald's purchases and sells businesses in transactions with franchisees and affiliates in an ongoing effort to achieve the optimal ownership mix in each market. These transactions and resulting gains are integral to franchising and as such, are appropriately recorded in operating income.

Equity in earnings of unconsolidated affiliates is reported after interest expense and income taxes, except for U.S. partnerships which are reported before income taxes. The Company actively participates in, but does not control, these businesses.

Net gains or losses from property dispositions result from disposals of excess properties through closings, relocations and other transactions.

OPERATING INCOME

The 1994 and 1993 increases reflected higher combined

operating margins, partially offset by higher general, administrative and selling expenses. Additionally, 1994 was positively impacted by higher other operating income and stronger foreign currencies, while 1993 was negatively impacted by weaker foreign currencies.

INTEREST EXPENSE

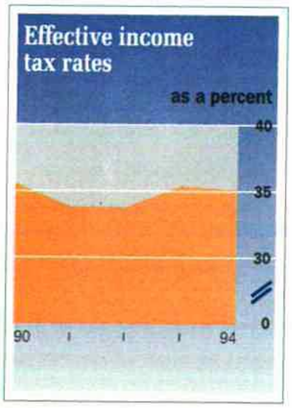
The 1994 decrease was primarily due to lower average interest rates, partially offset by higher debt levels and stronger foreign currencies. The 1993 decrease was primarily due to lower average debt balances, lower average interest rates and weaker foreign currencies.

NONOPERATING INCOME (EXPENSE)—NET

This category includes interest income, gains and losses related to investments and financings, as well as miscellaneous income and expense. Higher translation losses, principally from Mexico and Brazil, losses on investments and higher minority interest charges impacted 1994. Also contributing to the year-over-year change were gains on debt extinguishments and higher interest income in 1993. The 1993 increase reflected $9 million in gains related to debt extinguishments in 1993 and $29 million in charges related to various early redemptions of high-coupon, U.S. Dollar debt in 1992.

PROVISION FOR INCOME TAXES

The effective tax rate was 35.1% in 1994, compared with 35.4% in 1993 and 33.8% in 1992. The 1993 increase was primarily the result of new U.S. tax legislation enacted that year, which negatively impacted the provision by approximately $20 million. Of this amount, nearly $14 million was attributable to a one-time, noncash revaluation of deferred tax liabilities. The Company expects its 1995 effective income tax rate to be between 35.0% and 35.5%.

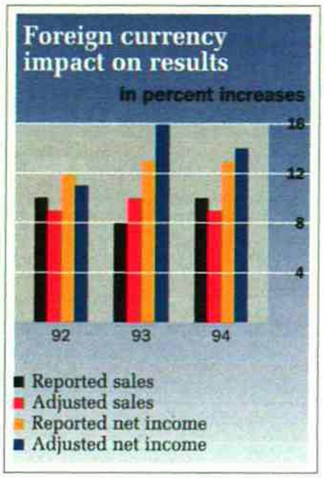


Consolidated net deferred tax liabilities included tax assets of $233 million in 1994, net of valuation allowance, and $148 million in 1993. Substantially all of the tax assets arose in the U.S. and other profitable markets, the majority of which is expected to be realized in future U.S. income tax returns.

NET INCOME AND NET INCOME PER COMMON SHARE

Net income and net income per common share increased 13% and 16%, respectively, in 1994. The spreads between the percent increases in net income and net income per common share reflected the impact of share repurchase. Net income and net income per common share increased 13% and 12%, respectively, in 1993. These increases were negatively affected by weaker foreign currencies and new U.S. tax legislation.

IMPACT OF CHANGING FOREIGN CURRENCIES



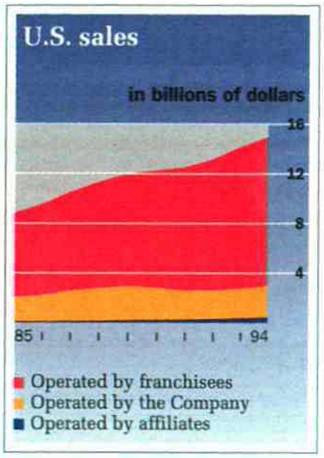
Changing foreign currencies affect reported results. McDonald's lessens short-term cash exposures principally by purchasing goods and services in local currencies, financing in local currencies and hedging foreign-denominated cash flows. In 1994, stronger foreign currencies positively contributed to operating income, but their impact on interest expense and higher translation losses in Latin America more than offset this benefit, resulting in a reduction in net income. Weaker foreign currencies had a significant negative impact on 1993 results. Further discussion of our management of changing foreign currencies is on pages 22, 23 and 24 in the commentary on financings and total shareholders' equity.

(Dollars in millions)	As reported		As adjusted*	
	1994			
Systemwide sales	**$25,987**	**10%**	**$25,715**	**9%**
Revenues	**8,321**	**12**	**8,268**	**12**
Operating income	**2,241**	**13**	**2,226**	**12**
Net income	**1,224**	**13**	**1,233**	**14**
	1993			
Systemwide sales	23,587	8	23,993	10
Revenues	7,408	4	7,721	8
Operating income	1,984	7	2,051	10
Net income	1,083	13	1,114	16

**If exchange rates remained constant year-over-year.*

U.S. operations

SALES



The 1994 and 1993 increases were due to expansion and higher sales at existing restaurants. Positive comparable sales were achieved in 1994 through an emphasis on value and customer satisfaction in the form of Extra Value Meals, Happy Meals and the three-tier value program; as well as through promotions run during the year in the form of the NBA cup highlighting large sandwiches, the Flintstones movie tie-in featuring the McRib Grand Poobah Meal and a set of four Bedrock mugs, the Dream Team II collector cup, the Music Event offering four artist collections with the purchase of a large sandwich or Extra Value Meal, and the Holiday Video offering of four videotapes.

(In millions of dollars)	1994	1993	1992	Five years ago	Ten years ago
Operated by franchisees	**$11,965**	$11,435	$10,615	$ 9,077	$6,166
Operated by the Company	**2,550**	2,420	2,353	2,728	1,856
Operated by affiliates	**426**	331	275	207	49
U.S. sales	**$14,941**	$14,186	$13,243	$12,012	$8,071

RESTAURANTS

There were 461 restaurants added in the U.S. in 1994, representing 38% of Systemwide additions, compared with 324 and 36% in 1993, and 363 and 56% five years ago. In addition, 494 U.S. satellites were operating at year-end 1994, compared with 114 at year-end 1993. McDonald's expects to maintain the current level of U.S. expansion in 1995 and in each of the next several years by adding between 400 and 500 restaurants each year, exclusive of satellites.

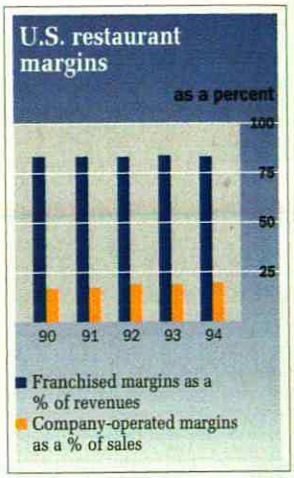
	1994	1993	1992	Five years ago	Ten years ago
Operated by franchisees	**7,849**	7,628	7,375	6,374	5,073
Operated by the Company	**1,546**	1,433	1,395	1,751	1,481
Operated by affiliates	**349**	222	189	145	41
U.S. restaurants	**9,744**	9,283	8,959	8,270	6,595

Restaurants operated by franchisees and affiliates represented 84% of U.S. restaurants at year-end 1994, compared with 85% at year-end 1993 and 79% five years ago. During the period 1989 through 1991, the Company franchised certain restaurants it previously operated because entrepreneurial owners with an equity stake in the business improved operations, sales and profits as well as consolidated profits. Since 1990, we have continued to make operational improvements and reduce operating and development costs; as a result, over the past several years, our base of restaurants has grown at a faster rate.

OPERATING RESULTS

(In millions of dollars)	1994	1993	1992	1991	1990
Revenues					
Sales by Company-operated restaurants	**$2,550**	$2,420	$2,353	$2,410	$2,655
Revenues from franchised restaurants	**1,606**	1,511	1,396	1,300	1,216
Total revenues	**4,156**	3,931	3,749	3,710	3,871
Operating costs and expenses					
Company-operated restaurants	**2,066**	1,977	1,920	2,000	2,221
Franchised restaurants	**270**	247	235	217	202
General, administrative and selling expenses	**714**	638	566	549	511
Other operating (income) expense—net	**(25)**	(18)	(13)	(56)	(49)
Total operating costs and expenses	**3,025**	2,844	2,708	2,710	2,885
U.S. operating income	**$1,131**	$1,087	$1,041	$1,000	$ 986

U.S. revenues were positively impacted by strong sales and expansion in 1994 and 1993, and negatively affected in 1992, 1991 and 1990 by the franchising of certain Company-operated restaurant businesses.



U.S. Company-operated margins increased $42 million or 9% in 1994, reflecting sales improvement and growth in the number of Company-operated restaurants. These margins were 19.0% of sales in 1994, compared with 18.3% in 1993 and 18.4% in 1992. In 1994, the margin benefited from lower commodity costs and improvements in processing for beef. U.S. franchised margins rose $71 million or 6% in 1994. These margins were 83.2% of applicable revenues in 1994, compared with 83.6% in 1993 and 83.2% in 1992. Franchised margins as a percent of revenues decreased in 1994 because rent expense grew at a faster rate than revenues, resulting from a higher proportion of leased openings.

While it is difficult to assess potential effects of federal and state legislation in the U.S. that may impact the industry, the Company believes it can maintain operating margins within the historical range of the past ten years by continuing to build sales and reduce costs.

U.S. operating income rose $43 million or 4% in 1994, and was 50% of consolidated operating income, compared with 55% in 1993. The 1994 and 1993 increases resulted primarily from higher combined operating margins, partially offset by higher general, administrative and selling expenses in the form of higher employee costs, other expenditures to support our global strategies and a one-time $12 million charge related to the implementation of the new accounting rule for advertising costs in 1994. Without this charge, U.S. operating income would have grown by 5% in 1994. Operating income included $366 million of depreciation and amortization in 1994, compared with $348 million in 1993 and $330 million in 1992.

While the U.S. market remains highly competitive, McDonald's is confident of continued growth through a greater emphasis on value and customer satisfaction, and through expansion.

ASSETS AND CAPITAL EXPENDITURES

(In millions of dollars)	1994	1993	1992	1991	1990
New restaurants	**$ 472**	$ 332	$ 196	$ 214	$ 446
Existing restaurants	**125**	122	125	151	249
Other properties	**113**	130	76	45	51
U.S. capital expenditures	**$ 710**	$ 584	$ 397	$ 410	$ 746
U.S. assets	**$6,683**	$6,385	$6,410	$6,154	$6,060

U.S. assets increased $297 million or 5% in 1994, driven by higher expenditures for restaurant property and buildings

resulting from expansion. At year-end 1994, 49% of consolidated assets were located in the U.S., compared with 53% at year-end 1993. Capital expenditures rose $126 million or 22% in 1994, and represented 46% of consolidated capital expenditures, compared with 55% five years ago. These amounts excluded expenditures made by franchisees such as their initial investments in equipment, signs, seating and decor, as well as long-term, ongoing reinvestment in their businesses. New restaurant expenditures grew $140 million or 42% because of accelerated expansion, tempered by lower average development costs, and included $41 million related to satellite development.

> **I'm convinced our success is ultimately determined by our people in our restaurants—who else delivers the unique McDonald's experience? That's why we value our people so highly, encourage them to reach their full potential, and recognize and reward those who satisfy our customers.**
>
> *President and Chief Executive Officer-U.S.A., Shareholder*

Expenditures for existing restaurants included modifications to achieve higher levels of customer satisfaction and implementation of technology to improve service and food quality. The decline since 1990 reflected cost reduction efforts and aggressive reinvestment in prior years. Rebuilding and relocating restaurants has generated additional sales, reflecting our ability to adjust to changing demographics, traffic patterns and market opportunities. More than $40 million were spent for these investments in 1994, and $249 million over the past five years.

(In thousands of dollars)	**1994**	1993	1992	1991	1990
Land	**$ 317**	$ 328	$ 361	$ 433	$ 433
Building	**483**	482	515	608	720
Equipment	**295**	317	361	362	403
U.S. average development costs	**$1,095**	$1,127	$1,237	$1,403	$1,556

Average development costs have steadily decreased since 1990 due to efforts to optimize building designs and standardize development. Average land costs declined as a result of the increase in low-cost building designs, which utilize smaller land parcels. Average building costs remained relatively flat reflecting the benefits of these building designs and construction efficiencies. Low-cost building designs comprised nearly 83% of 1994 openings compared with 80% in 1993. Average equipment costs decreased due to standardization and global sourcing. McDonald's intends to pursue ongoing development cost reductions by taking further advantage of standardization, global sourcing and economies of scale.

These lower-cost, lower-volume building designs allow us to profitably expand into more locations. This is consistent with McDonald's goal of increasing market share with greater marketwide presence around the world.

The Company continues to emphasize restaurant property ownership, because real estate ownership yields long-term benefits, including the ability to fix occupancy costs. However, most satellites are leased locations. In addition to purchasing new properties, the Company acquires previously leased properties and owned 69% of U.S. sites at year-end 1994, the same as five years ago.

Operations outside of the U.S.

SALES

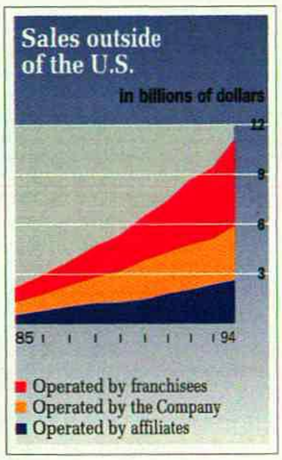
Sales outside of the U.S. rose 18% in 1994 due to expansion, higher sales at existing restaurants as comparable sales on a local currency basis were positive, and stronger foreign currencies. The 1993 increase was negatively impacted by weaker foreign currencies, most notably the European

Advertisement from Hungary. Translation on page 9.

currencies, as well as the Canadian and Australian Dollars. Strong operating results have been achieved in the past several years despite weak economies in several countries, particularly Canada, England and Japan.

(In millions of dollars)	1994	1993	1992	Five years ago	Ten years ago
Operated by franchisees	$ 5,182	$4,321	$3,859	$2,142	$ 748
Operated by the Company	3,242	2,737	2,750	1,873	682
Operated by affiliates	2,622	2,343	2,033	1,306	506
Sales outside of the U.S.	$11,046	$9,401	$8,642	$5,321	$1,936

Although many European economies were weak over the past 18 months, McDonald's markets generally performed well. Throughout 1994, comparable sales in France and Germany were not as strong as in prior years because of the economy, unusually hot weather in the summer, and World Cup Soccer. Yet, growth and profitability in both markets were very good. Pacific sales were strong with the exception of our joint venture in Japan, which has been affected by a weak economy. Transaction counts and profits were up in Japan, but sales trends had not fundamentally improved. Business in Canada continued to improve, despite a weak economy. Latin American economies have been weak, but our business there has been quite good, particularly in Brazil, since the mid-year economic reforms. Results in Mexico in 1994 were impacted by the continuing sluggish economy and in December, by the devaluation of the Mexican peso. We expect this impact to continue into 1995.



In 1994, many markets delivered excellent sales growth on a local currency basis: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, England, Finland, France, Germany, Hong Kong, Hungary, Ireland, Italy, Malaysia, Netherlands, New Zealand, Norway, Panama, Philippines, Puerto Rico, Scotland, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey and Wales.

RESTAURANTS

During the past five years, 66% of Systemwide additions have been outside of the U.S. Of the 751 restaurants added in 1994, 51% were in the six largest markets, compared with 54% in 1993 and 57% in 1992. This continued relative decline is indicative of the growing importance of emerging markets. McDonald's expects to boost expansion outside of the U.S. in 1995 and in each of the next several years by adding between 800 and 1,000 restaurants, exclusive of satellites.

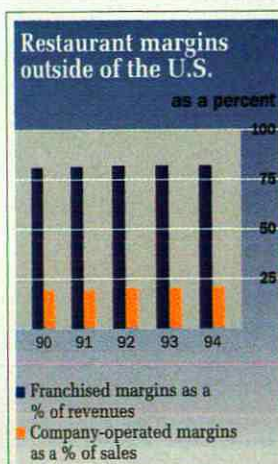
	1994	1993	1992	Five years ago	Ten years ago
Operated by franchisees	2,609	2,204	1,862	1,199	651
Operated by the Company	1,537	1,266	1,156	940	572
Operated by affiliates	1,315	1,240	1,116	753	486
Restaurants outside of the U.S.	5,461	4,710	4,134	2,892	1,709

About 79% of Company-operated restaurants outside of the U.S. were in England, Canada, Germany, Australia, Taiwan, Hong Kong and France. About 68% of franchised restaurants outside of the U.S. were in Canada, Germany, Australia, France, Japan and the Netherlands. About 65% of the restaurants operated by affiliates were located in Japan.

OPERATING RESULTS

(In millions of dollars)	1994	1993	1992	1991	1990
Revenues					
Sales by Company-operated restaurants	$3,242	$2,737	$2,750	$2,499	$2,364
Revenues from franchised restaurants	923	740	634	486	405
Total revenues	4,165	3,477	3,384	2,985	2,769
Operating costs and expenses					
Company-operated restaurants	2,579	2,188	2,206	2,029	1,915
Franchised restaurants	165	133	114	90	77
General, administrative and selling expenses	369	303	295	246	213
Other operating (income) expense—net	(59)	(44)	(51)	(58)	(46)
Total operating costs and expenses	3,054	2,580	2,564	2,307	2,159
Operating income outside of the U.S.	$1,111	$ 897	$ 820	$ 678	$ 610

The 1994 and 1993 revenue and operating income increases reflected expansion and higher combined operating margins, partially offset by higher general, administrative and selling expenses. Changing foreign currencies had a positive effect in 1994 and a negative effect in 1993; higher other operating income helped 1994.



Company-operated margins remained strong, increasing $114 million or 21% in 1994. These margins improved to 20.5% of sales in 1994, compared with 20.1% in 1993 and 19.8% in 1992. Franchised margins grew $151 million or 25% in 1994. These margins were 82.1% of applicable revenues in 1994, compared with 82.0% in 1993 and 82.1% in 1992.

The 1994 and 1993 increases in general, administrative and selling expenses were primarily due to higher employee

costs associated with expansion.

The 1994 increase in other operating income was primarily due to gains on sales of restaurant businesses, greater affiliate earnings from Japan and other markets, and gains resulting from property dispositions. Other operating income decreased in 1993 due to the favorable settlement of a sales tax case in Brazil in 1992, offset somewhat by 1993 increases in gains on sales of restaurant businesses and greater affiliate earnings.

We can't ever be satisfied with our results. That means continuous improvement in satisfying our customers, improving our processes, and rewarding our people throughout the world. It's a never-ending process.

President and Chief Executive Officer-International, Shareholder

Operations outside of the U.S. continued to contribute greater amounts to consolidated results as shown below:

(As a percent of consolidated)	**1994**	1993	1992	1991	1990
Systemwide sales	**43**	40	39	37	35
Total revenues	**50**	47	47	45	42
Operating income	**50**	45	44	40	38
Operating margins					
Company-operated	**58**	55	56	53	51
Franchised	**36**	32	31	27	24
Systemwide restaurants	**36**	34	32	29	27
Assets	**51**	47	45	46	43

The Europe/Africa/Middle East segment accounted for 63% of revenues and 61% of operating income outside of the U.S. in 1994, growing $369 and $124 million, respectively. Germany, England and France accounted for 82% of this segment's operating income, compared with 85% in 1993. The 1994 increases were primarily due to strong operating results in these countries, as well as many emerging markets. The 1993 increases were primarily due to strong operating results in Germany and France, as well as many emerging markets, offset by weaker foreign currencies; England's operating income was significantly impacted by the weaker currency.

Asia/Pacific revenues grew $236 million and operating income increased $52 million in 1994; 87% of operating income was contributed by Australia, Japan, Hong Kong and Taiwan. The 1994 and 1993 increases were attributable to expansion and developing economies in many markets, with the exception of our affiliate in Japan which continued to suffer from a weak economy. The change in ownership of Taiwan from an affiliate to a wholly-owned subsidiary was also a benefit in 1994.

Canadian revenues decreased $12 million in 1994 due to the negative impact of the weaker currency; revenues would have increased $21 million in 1994 if the exchange rate had remained at its 1993 level. Operating income increased $6 million because of lower operating costs and higher gains on sales of restaurant businesses, partially offset by the weaker currency.

Latin American revenues grew $95 million, while operating income increased $32 million in 1994. The 1994 increases in revenues and operating income were primarily a function of expansion, as well as a strengthening of the Brazilian market since the mid-year economic reforms. However, operating income in Mexico was down because of the economy and peso devaluation. The 1993 increase in revenues was primarily a function of expansion, while the decrease in operating income reflected the favorable settlement of a sales tax case in Brazil in 1992, partially offset by better results in Argentina in 1993. Brazil was also affected by a weak economy in 1993 and 1992.

ASSETS AND CAPITAL EXPENDITURES

Assets outside of the U.S. rose $1.3 billion or 22% in 1994 due to expansion and stronger foreign currencies. At year-end 1994, about 51% of consolidated assets were located outside of the U.S.; 60% of these assets were located in England, Germany, France, Australia and Canada.

(In millions of dollars)	**1994**	1993	1992	1991	1990
New restaurants	**$ 723**	$ 609	$ 603	$ 612	$ 639
Existing restaurants	**87**	94	91	94	126
Other properties	**34**	55	47	39	74
Capital expenditures outside of the U.S.	**$ 844**	$ 758	$ 741	$ 745	$ 839
Assets outside of the U.S.	**$6,909**	$5,650	$5,271	$5,195	$4,608

In the past five years, nearly $3.9 billion were invested outside of the U.S.; in 1994, capital expenditures rose in all geographic segments. Approximately 70% of capital expenditures outside of the U.S. were invested in Europe—principally in Germany, France and England.

In general, average development costs for new restaurants for the five largest, majority-owned markets—Australia, Canada, England, France and Germany—were nearly double the U.S. average; such costs accommodate higher sales volumes and transaction counts. Since 1991, average development costs have decreased due to construction and design efficiencies, standardization, global sourcing and changes in the mix of openings.

These lower-cost, lower-volume building designs allow us to profitably expand into more locations. This is consistent with McDonald's goal of increasing market share with greater marketwide presence around the world.

Expenditures for existing restaurants included seating and decor upgrades, and equipment required for new products and operating efficiencies. The majority of these expenditures were in Europe. Expenditures for other prop-

erties were principally for office facilities.

As in the U.S., business outside of the U.S. emphasizes restaurant property ownership. However, various laws and regulations make property acquisition and ownership much more difficult than in the U.S. Ownership is obtained when practical; otherwise, long-term leases are a viable alternative. In addition, certain markets have laws and customs that offer stronger tenancy rights than are available in the U.S. The Company and affiliates owned 36% of sites outside of the U.S. at year-end 1994, compared with 35% five years ago.

Capital expenditures made by affiliates—which were not included in consolidated amounts—were $203 million in 1994, compared with $207 million in 1993. The majority of 1994 expenditures were for development in Japan, Argentina, Sweden and Singapore.

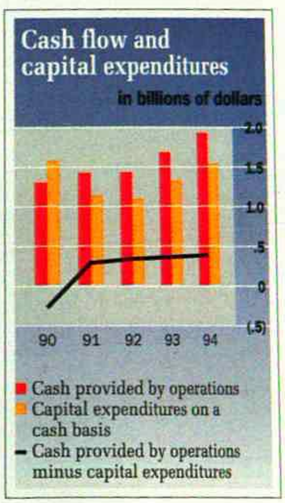
Financial position

TOTAL ASSETS AND CAPITAL EXPENDITURES

Total assets grew approximately $1.6 billion or 13% in 1994; net property and equipment represented 83% of total assets and rose $1.2 billion. Capital expenditures increased $213 million or 16%, reflecting higher expansion, partially offset by lower average development costs and stronger foreign currencies.

CASH PROVIDED BY OPERATIONS

Cash provided by operations increased $246 million or 15% in 1994. Together with other sources of cash such as borrowings, cash provided by operations was used principally for capital expenditures, debt repayments, share repurchase and dividends. For the fourth straight year, cash provided by operations exceeded capital expenditures.



While cash generated is significant relative to cash required, the Company also has the ability to meet short-term needs through commercial paper borrowings and line of credit agreements. Accordingly, a relatively low current ratio has been purposefully maintained; it was .30 at year-end 1994.

The Company believes that cash flow measures are meaningful indicators of growth and financial strength, when evaluated in the context of absolute dollars, uses and consistency. Over the past five years, cash flow coverage has improved significantly. Cash provided by operations is expected to cover capital expenditures over the next several years, even as expansion continues to accelerate.

(Dollars in millions)	**1994**	1993	1992	1991	1990
Cash provided by operations	**$1,926**	$1,680	$1,426	$1,423	$1,301
Cash provided by operations less capital expenditures	**$ 388**	$ 363	$ 339	$ 294	$ (270)
Cash provided by operations as a percent of capital expenditures	**125**	128	131	126	83
Cash provided by operations as a percent of average total debt	**48**	44	33	31	29

FINANCINGS

The Company strives to minimize interest expense and the impact of changing foreign currencies while maintaining the capacity to meet increasing growth requirements. To accomplish these objectives, McDonald's generally finances long-term assets with long-term debt in the currencies in which the assets are denominated, while remaining flexible to take advantage of changing foreign currencies and interest rates.

Over the years, major capital markets and various techniques have been utilized to meet financing requirements and reduce interest expense. Currency exchange agreements have been employed in conjunction with borrowings to obtain desired currencies at attractive rates. Interest-rate exchange agreements have been used to effectively convert fixed-rate to floating-rate debt, or vice versa. Foreign-denominated debt has been used to lessen the

impact of changing foreign currencies on net income and shareholders' equity. Total foreign-denominated debt, including the effects of currency exchange agreements, was $4.0 and $3.1 billion at year-end 1994 and 1993, respectively.

	1994	1993	1992	1991	1990
Fixed-rate debt as a percent of total debt at year end	**64**	77	75	78	78
Weighted average annual interest rate	**8.4**	9.1	9.3	9.4	9.4
Foreign-denominated debt as a percent of total debt at year end	**92**	86	72	61	60
Total debt as a percent of total capitalization (total debt and total shareholders' equity)	**39**	37	40	49	53

The Company manages its debt portfolio in order to respond to changes in interest rates and foreign currencies and accordingly, periodically retires, redeems, and repurchases debt; terminates exchange agreements; and uses derivatives. While changing foreign currencies affect reported results, the Company actively hedges seven foreign currencies—Japanese Yen, Deutsche Mark, French Franc, British Pound Sterling, Australian Dollar, Canadian Dollar and Swiss Franc—to minimize the cash exposure of royalty and other payments received in the U.S. in local currencies.

The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue financial instruments for trading purposes; all exchange agreements are over-the-counter instruments. McDonald's restaurants also primarily purchase goods and services in local currencies resulting in natural hedges. McDonald's typically finances in local currencies creating economic hedges; and the Company's exposure is diversified within a basket of currencies, as opposed to one or several. The Company's largest net asset exposures (defined as total assets less foreign-denominated liabilities) by foreign currency were as follows:

(In millions of dollars) December 31,	**1994**	1993
British Pounds Sterling	**$330**	$324
Canadian Dollars	**311**	276
Australian Dollars	**212**	152
French Francs	**99**	81
Austrian Schillings	**84**	63

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Duff & Phelps began rating the debt in 1990, and currently rates it AA+. At the present time, these strong ratings are important to us in the context of our global development plans. The Company has not experienced, nor does it expect to experience, difficulty in obtaining financing or in refinancing existing debt. At year-end 1994, the Company and its subsidiaries had $1.7 billion available under line of credit agreements and $585 million under previously filed shelf registrations available for future debt issuance.

Although McDonald's prefers to own real estate, leases are an alternative financing method. As in the past, some new properties will be leased. Such leases frequently include renewal and/or purchase options. In the past five years, McDonald's has leased properties related to 40% of U.S. openings (excluding satellites) and 64% of openings outside of the U.S. (excluding satellites).

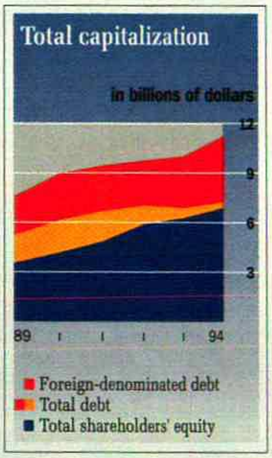
Since 1990, the Company has improved its balance sheet by reducing leverage while simultaneously increasing expansion and repurchasing shares.

To me, measurement is a critical part of managing with facts. So we've developed a number of effective measurement tools to tell us how well we're delivering what our customers want and expect, to help us anticipate where we need to improve, and to enable us to respond quickly.

Vice Chairman and Chief Financial Officer, Shareholder

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity rose $611 million or 10% in 1994, representing 51% of total assets at year-end 1994. One technique used to enhance common shareholder value is to repurchase shares with our excess cash flow or debt capacity, while maintaining a strong equity base for future expansion. At year-end 1994, the market value of shares repurchased and recorded as common stock in treasury was $4.0 billion, compared to their cost of $2.4 billion.



In conjunction with efforts to enhance common shareholder value, the Company repurchased about $500 million of its common stock in 1994, representing half of the three-year $1.0 billion program announced in January 1994. In 1993, the Company completed a $700 million common share repurchase program begun in 1992. In 1992, in order to lower the cost of equity capital, the Company issued $500 million of Series E 7.72% Cumulative Preferred Stock; at the same time, the Board of Directors authorized a $500 million common share repurchase program. Subsequently, the Board authorized an additional $200 million expenditure for share repurchase in 1993.

Stronger foreign currencies added $77 million to shareholders' equity in 1994. At year-end 1994, foreign-denominated assets not entirely financed with related foreign-denominated debt were principally located in England, Canada, Australia, France and Austria. At year-end 1994, assets in hyperinflationary markets and in Mexico were principally financed in U.S. Dollars.

RETURNS

Return on average assets is computed using operating income. Net income, less preferred stock dividends (net of tax in 1994, 1993 and 1992), is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

	1994	1993	1992	1991	1990
Return on average assets	**17.6**	17.0	16.4	15.7	16.3
Return on average common equity	**19.4**	19.0	18.2	19.1	20.7

The improvements in return on average assets since 1991 reflected better global operating results and a slower rate of asset growth. The 1994 and 1993 improvements in return on average common equity reflected higher levels of share repurchase, whereas declines in 1992 and 1991 resulted from lower levels of share repurchase as excess cash flow was used to reduce debt.

EFFECTS OF CHANGING PRICES—INFLATION

McDonald's has demonstrated an ability to manage inflationary cost increases effectively. Rapid inventory turnover, ability to adjust prices, cost controls and substantial property holdings—many of which are at fixed costs and partially financed by debt made cheaper by inflation—have enabled McDonald's to mitigate the effects of inflation. In hyperinflationary markets, menu board prices typically are adjusted to keep pace, thereby mitigating the effect on reported results. •

Answers to *Forty Years of Food, Folks and Fun*, page 48.

1955 Des Plaines, Illinois. **1956** Senior Chairman. **1957** Quality, Service, Cleanliness. **1958** 100 billion. **1959** Speedee. **1960** Less than 13 cents. **1961** Dick and Maurice (Mac). **1962** *Life*. **1963** Willard Scott. **1964** Filet-O-Fish. **1965** $22.50. **1966** MCD. **1967** Macy's Thanksgiving Day Parade. **1968** Twoallbeefpattiesspecialsaucelettucecheesepicklesonionsonasesameseedbun and Jim Delligatti. **1969** Canada. **1970** Alaska. **1971** California. **1972** Albert. **1973** Quarter Pounder. **1974** Philadelphia. **1975** Drive-thru. **1976** Montreal. **1977** Egg McMuffin and Herb Peterson. **1978** Japan. **1979** Part-time mail clerk. **1980** Germany. **1981** Toronto. **1982** Germany. **1983** Chicken McNuggets. **1984** Ronald McDonald Children's Charities. **1985** 30 Dow Jones Industrial Average stocks. **1986** *McDonald's: Behind the Arches*. **1987** Elk Grove Village, Illinois. **1988** Virginia. **1989** Joan Kroc. **1990** Cholesterol-free vegetable oil. **1991** Environmental Defense Fund. **1992** Switzerland. **1993** Pope John Paul II and U.S. President Bill Clinton. **1994** Systemwide sales.

So nicht!

Wir suchen nämlich keine schrägen Vögel, sondern einfach gute Mitarbeiter. Deshalb erwarten wir von Ihnen auch keine verrückten Turnübungen, wenn Sie mit uns sprechen. Ganz im Gegenteil. Kommen Sie so, wie Sie sind und lassen Sie uns ganz normal miteinander reden. So können wir uns am besten kennenlernen. Und Sie wissen hinterher ganz genau, was Sie erwartet. Und das ist, soviel sei hier schon verraten, eine Arbeit, die Spaß macht. Egal, ob Sie sich um die knusprigen Pommes Frites kümmern, um saftige Big Mäcs, oder direkt um hungrige Gäste. Zwei Dinge sind einfach wichtig: die hohe Qualität der Produkte und die Freude an der Arbeit. Und was hält Sie jetzt noch davon ab, uns anzurufen? McDonald's, 1300 Wien/Flughafen, World Trade Center, Personalabteilung. Tel.: 1/7 11 10/65 93.

McDonald's

Das etwas andere Restaurant

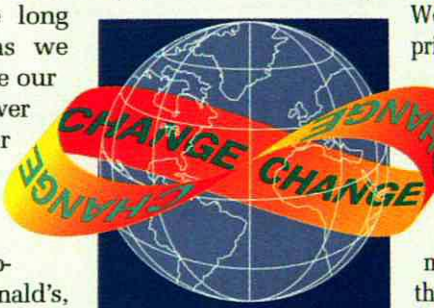
Advertisement from Austria. "Not That Way!" You don't need crazy antics to get a job as part of McDonald's crew.

beginning a journey of

When our purchasing team assessed McDonald's ambitious worldwide expansion plans, the need for complex new sourcing arrangements and the competitive requirement to keep costs down, it was easy to see that McDonald's also needed to enhance the way we work with our suppliers.

The alignment of common goals with our suppliers had a modest beginning in 1992–cutting some $20 million from McDonald's $7 billion grocery bill. Since then it's been a learning process that will continue long into the future, as we relentlessly leverage our global buying power to deliver greater value to our customers.

This continuous improvement process between McDonald's, our franchisees and suppliers is becoming a way of life throughout the world. In fact, in the next three years we're targeting cost savings of $750 million.



As the world around us changes, McDonald's remains flexible to change the way we conduct business.

That's a simple, but dramatic, example of how McDonald's is managing change by changing the way we manage.

The powerful result of teams working toward common objectives is that the more we accomplish, the more we see what can be done in the future. This is how we see our future at McDonald's, as we challenge ourselves to do better in every aspect of our business.

McDONALD'S QUALITY MANAGEMENT

Many companies have turned to Total Quality Management (TQM) to revitalize their businesses, increase productivity, and stimulate expansion–only to find mixed results. That's because it's not a quick fix, but a fundamental change in the way you do business. We're incorporating quality principles as a vital and living part of our corporate culture–a change measured in years, not quarters.

We're adapting TQM principles to our business to drive meaningful change through a program we call MQM (McDonald's Quality Management). Our ability to do that is enhanced by the fact that many of these same principles were embraced by our founder, Ray Kroc, and they've always been part of our heritage. In addition, we realize this is a long-term, grind-it-out process. We're committed to change, to doing whatever it takes to extend our leadership and become a truly global business.

WHAT IS MQM?

It is a customer-driven business philosophy and an enabler of cultural change which is penetrating McDonald's and helping us meet our goal of satisfying 100 percent of our customers 100 percent of the time.

It is based upon a set of attitudes, behaviors, and technical skills that enhance the way we look at and do the things we do; the way we interact with our colleagues and customers; the way we lead our people and our industry; and the way we identify and solve problems.

It means managing to be the best we can be by achieving quality–as our customers define it–in everything we do. We will achieve it by satisfying our customers, satisfying our employees, and continuously improving our processes.

The ultimate screen for every task we initiate is–how will it improve customer satisfaction?

MQM will become the blueprint for the way that McDonald's manages its global business, beginning with senior management and extending to every one of our crew members who serves every one of our customers.

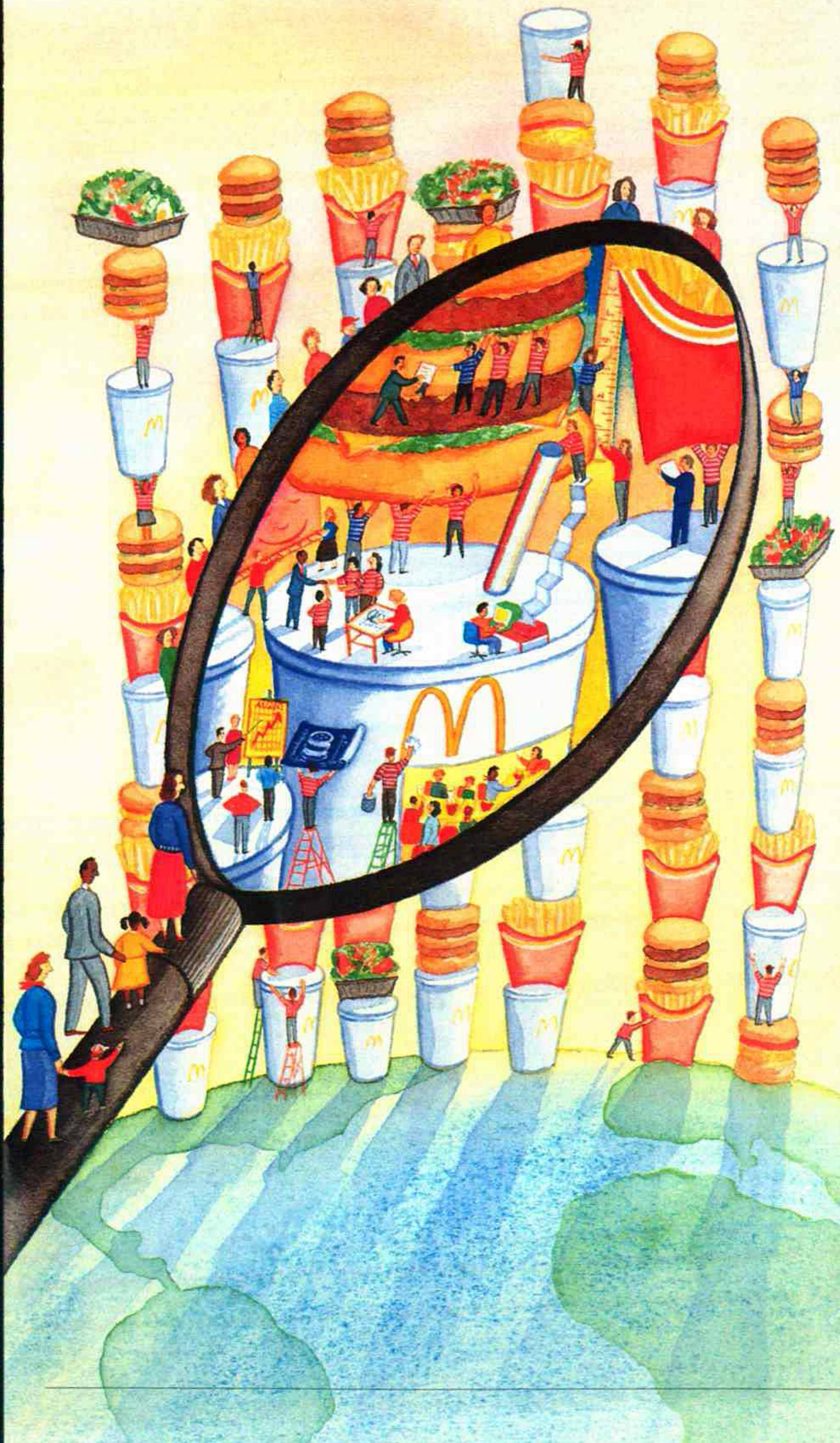
THE REASON FOR CHANGE

In today's dynamic world, customer needs are changing, social and economic structures are changing, technology is changing, and the nature of our competition is changing. And as we manage change and meet those challenges, our direction is set by our desire to satisfy our customers.

It takes more than a record of past success to be one of tomorrow's leaders, and that's why we're taking the initiative to do even better than we have in the past. As the world around us changes, McDonald's remains flexible to change the way we conduct business.

By managing the change process in our global business, our business processes will improve and become more efficient, our employees will become more productive, and customer satisfaction will increase. And this is only the beginning . . .

CHANGE



A CLOSER LOOK

Change In Action

Customer-Driven
Outstanding customer acceptance has led to Extra Value Meal programs being implemented in McDonald's restaurants around the world.

Managing With Facts
A customer satisfaction measurement system is being implemented at every U.S. restaurant to allow local management to make better decisions and manage improvement.

Valuing People
Dedication to training and education has won McDonald's in Australia recognition as the outstanding employer of choice.

Continuous Improvement
Strategic investment in technology and better utilization of potato varieties allowed us to keep U.S. french fry costs the same as 10 years ago.

100% Total Customer Satisfaction
Seven of 40 U.S. regions are testing an 800-number customer comment system to feed information to restaurants for immediate action.

Teams
A diverse group of Company and supplier representatives in beef processing identified and shared best practices, as well as improved processing efficiencies, which saved McDonald's more than $17 million in 1994.

Leadership
We surpassed an important environmental goal by purchasing more than $1 billion in recycled goods since 1991.

Structured Problem-Solving
Our engineers and fryer manufacturers identified and solved causes of fryer failure, saving $1,500 per restaurant.

Strategic Integration
Increased use of Happy Meals in international markets is allowing us to reduce advertising and promotion costs through creation of combined marketing campaigns.

Communication
Our interactive video satellite network enabled the U.S. system to review and approve our 1995 marketing plan in one day, a competitive capability necessary in a rapidly changing marketplace.

THE NORTHEAST ZONE TEAM USED THE drive for continuous improvement to discover ways to reduce the investment required for a new McDonald's restaurant. Team members include (left to right, back row), Bob Scheidecker, operations development manager; Jack Creamer, zone controller; Peter Freitag, regional construction manager; Tom Swana, construction director; (middle row) Anthony McWhorter, regional controller; Donna Huhn, equipment purchasing assistant buyer; Rob Doran, senior vice president and zone manager; Anthony Mangion, regional construction manager; (front row) Roger Johnson, real estate director; Ken Schooley, architecture director; Fernando Esparza,

SITES

overcome growth barriers

As a growth leader for almost four decades, McDonald's faced a predictable dilemma. To continue our rapid pace of expansion, how do we reinvent ourselves while keeping our fundamental strengths intact?

Consider the barriers to growth as McDonald's entered the 1990s:

–Competitive pressure, particularly in the U.S. with some 11,000 new quickservice restaurants built between 1990 and 1993 . . .

–Fewer economically-viable niches for the full-sized, high-cost restaurants we were used to building . . .

–A shift from city-center sites to freestanding suburban locations in many markets outside of the U.S.

The solution?

To continue profitable expansion, we realized we'd have to change the way we thought about managing our growth.

We started with the obvious–lowering the cost of new restaurants. Average costs in the U.S. dropped from nearly $1.6 million in 1989 to less than $1.1 million in 1994.

But the search for innovation is extending far beyond the obvious.

Today's action items include satellites, nontraditional locations, more alliances with retail partners, and other creative new ways to develop restaurants. And that's just the start.

Change in managing our growth doesn't happen by accident. It takes new ways of looking at old problems.

Case in point–how to expand profitably in the Northeast U.S. Beyond competitive pressures, we faced barriers like high costs for land, construction, and equipment . . . and local economies still struggling with recession.

"It was obvious that the only way to build new restaurants was to reduce costs without affecting the customer's experience," says Rob Doran, zone manager. "We had to go beyond the cost savings we'd already achieved with our new restaurant designs."

To meet that challenge, Doran created a crossfunctional team of people from the field and home office. Doran was the catalyst that gave them direction, but the team was clearly responsible for developing solutions.

Team members each brought their experience and expertise to the table, but left their titles at the door. And there was a key groundrule–no solution would be implemented unless the entire team could support it.

This is no isolated example–our people are joining together in many similar efforts to eliminate barriers and continue our aggressive global expansion.

Individual challenges vary considerably, but the process of working together to develop unique solutions is the same–whether they result in freestanding restaurants in Europe, or kiosks in Brazil, or service station sites in the U.S.

JÖRG MEYER/BLACK STAR

A EUROPEAN CONSTRUCTION TEAM INTEGRATED COMMON STRATEGIES ACROSS COUNTRY BORDERS TO ENHANCE OUR "SMALL BUILDINGS, big profits" approach to restaurant development throughout Europe. Taking a well-deserved break at the Hofbräuhaus in Munich, Germany, are team members, left to right, Patrick Gilarski, VP, France; Dick Jacklow, director, U.S.; Dave Richards, VP, United Kingdom; Helmüt Spiess, director, Germany; and Helmüt Hecher, VP, Central Europe.

In the case of the Northeast Zone, the team ultimately found ways to standardize restaurants without sacrificing individuality. Using standardized designs, buying off-the-shelf kitchen equipment, and simplifying decor and seating layouts all reduced average restaurant development costs.

Suddenly, we're able to increase market share by developing sites that were previously inaccessible . . . and both franchisees and the Company are able to generate more profits faster.

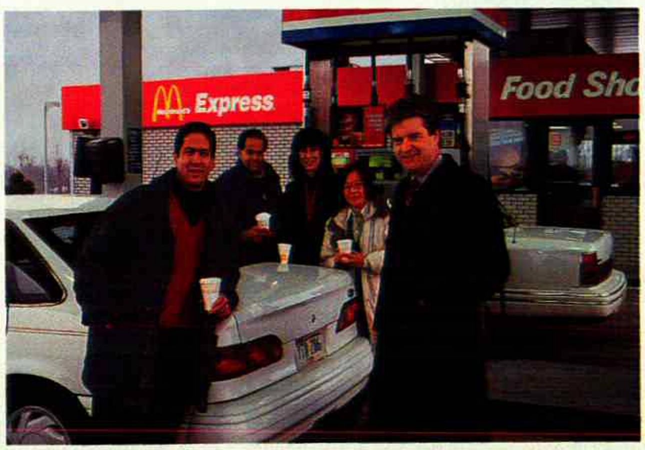
Best of all, our customers don't experience any difference, except that our restaurants are now even more convenient for them to visit.

This is just one example of rolling up our sleeves and managing change–a taste of similar breakthroughs we hope to achieve in the future.

The new learning about standardization is being communicated throughout the country, and the world–even as other new ideas are being generated.

In Doran's words, the process never really ends.

"We keep generating new ideas and incorporating them," he says. "We continually evaluate what we've done with the idea of making it better the next time." ●



LEFT, CLAUS C. MEYER/BLACK STAR RIGHT, MICHAEL MAUNEY

Left. THE BRAZILIAN DEVELOPMENT TEAM SATISFIED CUSTOMERS BY CREATING LOW-COST KIOSKS IN SHOPPING MALLS. KIOSKS NOT only make tidy profits, but also increase sales at McDonald's restaurants within the malls by increasing McDonald's awareness and visibility. Here in Sao Paulo are, left to right, Paulo Metello, operations development director; Orlando Biagini, special projects manager; Ricardo Foster, equipment manager; Ivan Gérson Scarpelini, supplier; and Sérgio Souza, project manager.

Right. SATELLITE TEAMS ARE CREATING NEW ALLIANCES TO SUPPORT OUR GROWTH WITH INNOVATIVE NEW LOCATIONS, SUCH AS SERVICE stations, bringing our food to wherever people wish to be served. At a new site in Warrenville, Illinois, are members of the oil development team, left to right, Mark Ochoa, partner advocate; Reggie Brown, construction manager; Jackie Hooper, construction manager; Sau Wei Lau, information services director; and Mike Walsh, VP, oil development.

Here's A Fresh Perspective On McDonald's.®

Take a closer look at the variety of great-tasting menu choices at McDonald's that are surprisingly slim when it comes to fat. Entrees like our Chunky Chicken Salad with lite vinaigrette dressing, McGrilled Chicken Classic™ or McLean Deluxe® sandwiches. Breakfast items such as fat-free muffins or whole-grain cereals with 1% lowfat milk. Or for a lowfat snack, there are shakes and soft serve cones.

McDonald's also offers nutrition materials about our menu to show your patients how our food fits into a healthful diet. Our **McDonald's Today**® brochure provides a complete menu analysis, plus McDonald's meal combinations that fit within dietary guidelines.

*To order **McDonald's Today** and other free patient education materials, call 1-800-524-5900.*

McDonald's

SMILES

on both sides of the counter

How does a quickservice restaurant organization set itself apart from the competition in its drive to increase sales at existing restaurants?

The challenge today is that everybody is beginning to look alike–restaurants appear the same . . . menus are similar . . . even prices are increasingly identical.

In a copycat world, the best way to stand out from the crowd is through customer satisfaction–100 percent of the customers 100 percent of the time. And as we're discovering, it's no longer enough to measure restaurant performance by our internal standards, no matter how exacting.

Success has to be measured through the eyes of the customers and the people who serve them.

Just ask Denise Gaynor, a 13-year McDonald's veteran in our Washington, DC region.

She was a skeptic when team building, quality coaching, and customer measurement first hit the region in 1992. But once she saw what the team approach could do for customer and employee satisfaction at the restaurant she managed in Alexandria, VA, Gaynor became a convert.

"Wow, did the results ever turn me around!" she says.

Dave Natysin, Washington, DC regional vice president, began the process by making internal customer satisfaction a regional priority. He restructured his staff into individual coaches for ten-person teams of restaurant managers and organized support departments into teams with department coaches.

"The restaurant teams built up great communications and support for each other," recalls Gaynor, who today has advanced to become one of her region's quality coaches.

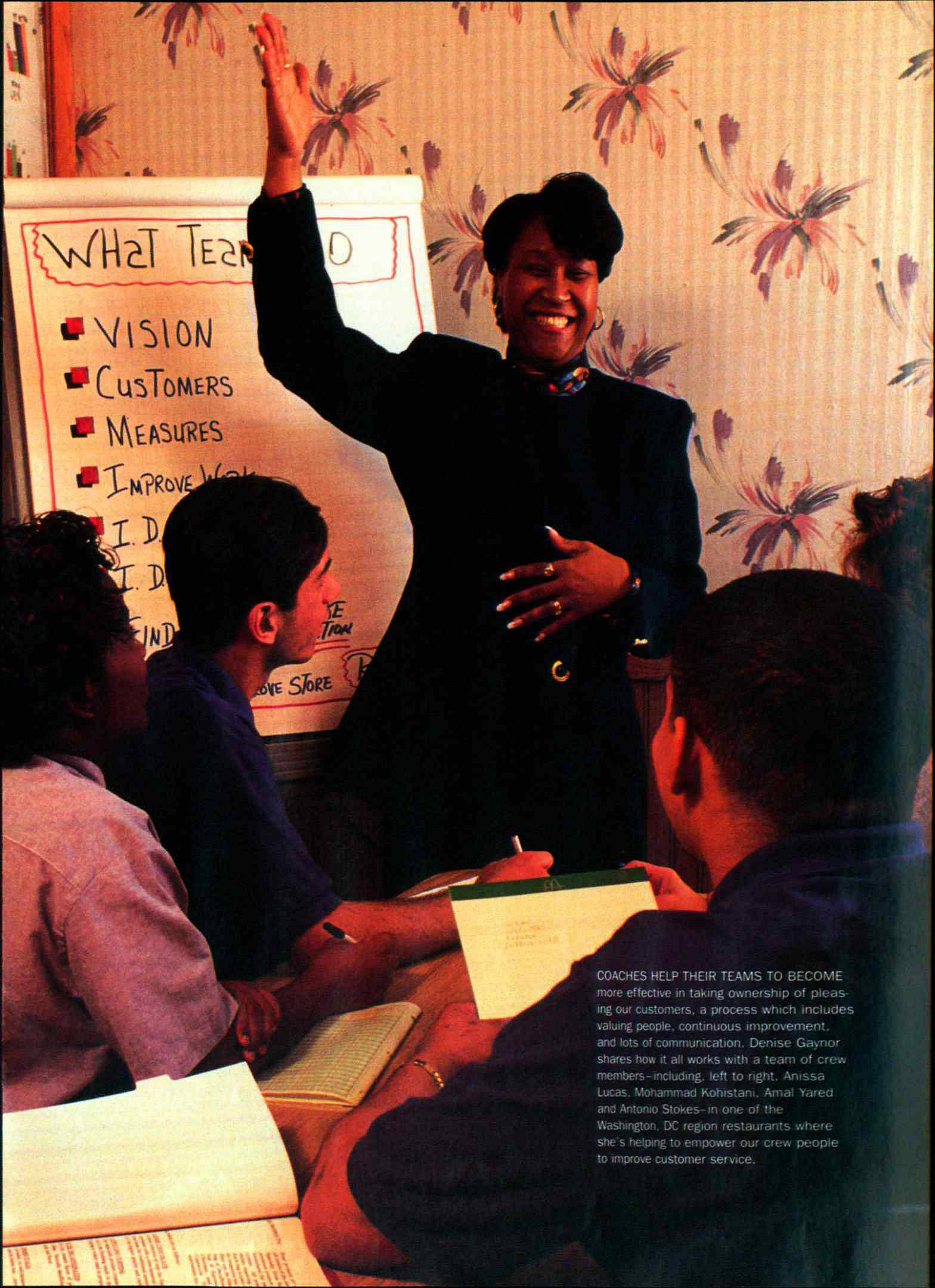
"I took everything I learned back to my restaurant, and once my assistant managers understood the principles of quality, they shared it all with the crew. When the crew became responsible for customer satisfaction, they came up with their own action plan. The crew made it their restaurant, and satisfied customers because it was what they wanted to do, not what we told them to do."

It is our hope that this process of discovering the potential of empowerment will spread as regions, countries, and individual restaurants change the way they work–as far away as Hong Kong and Australia, and as near as your neighborhood McDonald's.

In that sense, Gaynor's experience is both a microcosm of our drive for 100 percent customer satisfaction and a harbinger of things to come.

The results in Gaynor's restaurant are not an isolated example.

Over the past year, the numbers for the Washington, DC region speak for



COACHES HELP THEIR TEAMS TO BECOME more effective in taking ownership of pleasing our customers, a process which includes valuing people, continuous improvement, and lots of communication. Denise Gaynor shares how it all works with a team of crew members–including, left to right, Anissa Lucas, Mohammad Kohistani, Amal Yared and Antonio Stokes–in one of the Washington, DC region restaurants where she's helping to empower our crew people to improve customer service.

themselves: a 15 percent increase in customer satisfaction . . . a 20 percent increase in profits . . . a 20 percent increase in employee satisfaction.

Natysin says that involving our people in setting goals and improving performance has also cut management turnover in half and dramatically decreased crew turnover in restaurants practicing quality management.

Gaynor believes that the results to date are just the beginning. "It won't happen overnight, but there's no reason we can't get to 100 percent customer satisfaction in our region in the next two to three years when everyone is involved in making it happen."

And that's where our future lies–listening to customers and delivering the experiences they want and expect.

Multiply Gaynor's experience by some 15,000 restaurants worldwide, and you can begin to feel the true power of 100 percent customer satisfaction. ●

BOB DAVIS/BLACK STAR

LEFT. TOM SOBOLIK/BLACK STAR RIGHT. MICHAEL COYNE/BLACK STAR

Left. THE WASHINGTON, DC REGIONAL STAFF improved customer satisfaction by communicating with restaurant teams as coaches. They include, clockwise from left, Mike Harris, quality coach; Nancy Wilson, operations coach; Dave Natysin, regional vice president; Ken Evenson, operations coach; and Paul VanSickle, human resources coach.

Upper right. IT TAKES A TOTAL TEAM EFFORT to provide the value and service that makes our Hong Kong restaurants among the busiest in the world–from management to the restaurant teams to the equipment behind the scenes. From left, Tom Chan, restaurant manager; Daniel Ng, managing director; and Barry Tang, equipment manager.

Lower right. AUSTRALIA VALUES ITS employees, sponsoring Family Nights for crew members in the restaurants. Charlie Bell, managing director, recognizes Natalie Buterin of Wetherill Park, New South Wales, as crew person of the quarter.

And you thought we were All-American?

What's in a name? Well, quite a lot actually. Because when most people think of McDonald's they imagine a huge multinational conglomerate which is controlled from the U.S. and whose profits are regularly repatriated. All of which couldn't be further from the truth. Because virtually all of the returns produced by the efforts of our one thousand six hundred employees remains where it belongs - here in Ireland.

In fact, the only thing born in the USA was the idea... and the reality is that every single McDonald's restaurant in Ireland is franchised to a local owner and is managed and staffed in the main, by Irish people.

Now there's something to relish the next time you pay a visit to your local McDonald's.

McDonald's
Ireland

Advertisement from Ireland.

Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Financial Comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal control over financial reporting including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and such asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures which are communicated throughout the Company; careful selection, training, and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that business practices throughout the world are to be conducted in a manner which is above reproach.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that at December 31, 1994, it maintained an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented herein.

The Board of Directors, operating through its Audit Committee composed entirely of outside Directors, provides oversight to the financial reporting process. Ernst & Young LLP has independent access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION
Oak Brook, Illinois
January 26, 1995

Report Of Independent Auditors

The Board of Directors and Shareholders
McDonald's Corporation
Oak Brook, Illinois

We have audited the accompanying consolidated balance sheet of McDonald's Corporation and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation and subsidiaries at December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP
Chicago, Illinois
January 26, 1995

McDonald's Corporation
Consolidated Statement Of Income

(In millions of dollars, except per common share data) Years ended December 31,	**1994**	1993	1992
Revenues			
Sales by Company-operated restaurants	**$5,792.6**	$5,157.2	$5,102.5
Revenues from franchised restaurants	**2,528.2**	2,250.9	2,030.8
Total revenues	**8,320.8**	7,408.1	7,133.3
Operating costs and expenses			
Company-operated restaurants			
Food and packaging	**1,934.2**	1,735.1	1,688.8
Payroll and other employee benefits	**1,459.1**	1,291.2	1,281.4
Occupancy and other operating expenses	**1,251.7**	1,138.3	1,156.3
	4,645.0	4,164.6	4,126.5
Franchised restaurants—occupancy expenses	**435.5**	380.4	348.6
General, administrative and selling expenses	**1,083.0**	941.1	860.6
Other operating (income) expense—net	**(83.9)**	(62.0)	(64.0)
Total operating costs and expenses	**6,079.6**	5,424.1	5,271.7
Operating income	**2,241.2**	1,984.0	1,861.6
Interest expense—net of capitalized interest of $20.6, $20.0 and $19.5	**305.7**	316.1	373.6
Nonoperating income (expense)—net	**(48.9)**	7.8	(39.9)
Income before provision for income taxes	**1,886.6**	1,675.7	1,448.1
Provision for income taxes	**662.2**	593.2	489.5
Net income	**$1,224.4**	$1,082.5	$ 958.6
Net income per common share	**$ 1.68**	$ 1.45	$ 1.30
Dividends per common share	**$ .23**	$ .21	$ .20

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation Consolidated Balance Sheet

(In millions of dollars)	December 31, 1994	1993
Assets		
Current assets		
Cash and equivalents	**$ 179.9**	$ 185.8
Accounts receivable	**348.1**	287.0
Notes receivable	**31.2**	27.6
Inventories, at cost, not in excess of market	**50.5**	43.5
Prepaid expenses and other current assets	**131.0**	118.9
Total current assets	**740.7**	662.8
Other assets and deferred charges		
Notes receivable due after one year	**80.0**	90.0
Investments in and advances to affiliates	**579.3**	446.7
Miscellaneous	**380.4**	338.6
Total other assets and deferred charges	**1,039.7**	875.3
Property and equipment		
Property and equipment, at cost	**15,184.6**	13,459.0
Accumulated depreciation and amortization	**(3,856.2)**	(3,377.6)
Net property and equipment	**11,328.4**	10,081.4
Intangible assets—net	**483.1**	415.7
Total assets	**$13,591.9**	$12,035.2
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	**$ 1,046.9**	$ 193.3
Accounts payable	**509.4**	395.7
Income taxes	**25.0**	56.0
Other taxes	**102.1**	90.2
Accrued interest	**107.7**	132.9
Other accrued liabilities	**291.9**	203.9
Current maturities of long-term debt	**368.3**	30.0
Total current liabilities	**2,451.3**	1,102.0
Long-term debt	**2,935.4**	3,489.4
Other long-term liabilities and minority interests	**422.8**	334.4
Deferred income taxes	**840.8**	835.3
Common equity put options	**56.2**	
Shareholders' equity		
Preferred stock, no par value; authorized—165.0 million shares; issued—11.2 and 11.4 million	**674.2**	677.3
Common stock, no par value; authorized—1.25 billion shares; issued—830.3 million	**92.3**	92.3
Additional paid-in capital	**286.0**	256.7
Guarantee of ESOP Notes	**(234.4)**	(253.6)
Retained earnings	**8,625.9**	7,612.6
Foreign currency translation adjustment	**(114.9)**	(192.2)
	9,329.1	8,193.1
Common stock in treasury, at cost; 136.6 and 123.0 million shares	**(2,443.7)**	(1,919.0)
Total shareholders' equity	**6,885.4**	6,274.1
Total liabilities and shareholders' equity	**$13,591.9**	$12,035.2

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation
Consolidated Statement of Cash Flows

(In millions of dollars) Years ended December 31,	**1994**	1993	1992
Operating activities			
Net income	**$1,224.4**	$1,082.5	$ 958.6
Adjustments to reconcile to cash provided by operations			
Depreciation and amortization	**628.6**	568.4	554.9
Deferred income taxes	**(5.6)**	52.4	22.4
Changes in operating working capital items			
Accounts receivable increase	**(51.6)**	(48.3)	(29.1)
Inventories, prepaid expenses and other current assets (increase) decrease	**(15.0)**	(9.6)	2.2
Accounts payable increase	**105.4**	45.4	.8
Accrued interest decrease	**(25.5)**	(5.1)	(27.4)
Taxes and other liabilities increase (decrease)	**95.2**	26.5	(68.2)
Other—net	**(29.7)**	(32.4)	11.7
Cash provided by operations	**1,926.2**	1,679.8	1,425.9
Investing activities			
Property and equipment expenditures	**(1,538.6)**	(1,316.9)	(1,086.9)
Sales of restaurant businesses	**151.5**	114.2	124.5
Purchases of restaurant businesses	**(133.8)**	(64.2)	(64.1)
Notes receivable additions	**(15.1)**	(33.1)	(31.8)
Property sales	**66.0**	61.6	52.2
Notes receivable reductions	**56.7**	75.7	78.5
Other	**(92.6)**	(55.3)	(71.1)
Cash used for investing activities	**(1,505.9)**	(1,218.0)	(998.7)
Financing activities			
Net short-term borrowings	**521.7**	(8.9)	17.0
Long-term financing issuances	**260.9**	1,241.0	509.5
Long-term financing repayments	**(536.9)**	(1,185.9)	(1,041.5)
Treasury stock purchases	**(495.6)**	(620.1)	(79.7)
Preferred stock issuances			484.9
Common and preferred stock dividends	**(215.7)**	(201.2)	(160.5)
Other	**39.4**	62.6	59.4
Cash used for financing activities	**(426.2)**	(712.5)	(210.9)
Cash and equivalents increase (decrease)	**(5.9)**	(250.7)	216.3
Cash and equivalents at beginning of year	**185.8**	436.5	220.2
Cash and equivalents at end of year	**$ 179.9**	$ 185.8	$ 436.5
Supplemental cash flow disclosures			
Interest paid	**$ 323.9**	$ 312.2	$ 395.7
Income taxes paid	**$ 621.8**	$ 521.7	$ 531.6

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation Consolidated Statement of Shareholders' Equity

(Dollars and shares in millions, except per share data)	Preferred stock issued		Common stock issued		Additional paid-in capital	Guarantee of ESOP Notes	Retained earnings	Foreign currency translation adjustment	Common stock in treasury	
	Shares	Amount	Shares	Amount					Shares	Amount
Balance at December 31, 1991	19.8	$298.2	830.3	$92.3	$155.8	$(286.7)	$5,925.2	$ 32.3	(113.1)	$(1,382.0)
Net income							958.6			
Common stock cash dividends ($.20 per share)							(141.8)			
Preferred stock cash dividends ($1.01 for Series B, $1.16 for Series C and $.16 for Series E depositary share), (net of tax benefits of $6.4)							(14.7)			
Preferred stock issuance		500.0			(15.1)					
Preferred stock conversion	(8.2)	(118.0)			22.9				6.4	95.1
ESOP Notes payment						12.6				
Treasury stock acquisitions									(3.8)	(92.3)
Translation adjustments (including taxes of $21.2)								(159.7)		
Common equity put options issuance										(91.5)
Stock option exercises and other (including tax benefits of $29.7)					50.5	2.8			7.2	47.9
Balance at December 31, 1992	11.6	680.2	830.3	92.3	214.1	(271.3)	6,727.3	(127.4)	(103.3)	(1,422.8)
Net income							1,082.5			
Common stock cash dividends ($.21 per share)							(150.3)			
Preferred stock cash dividends ($1.01 for Series B, $1.16 for Series C and $1.93 for Series E depositary share), (net of tax benefits of $4.1)							(46.9)			
Preferred stock conversion	(.2)	(2.9)			.5				.2	2.4
ESOP Notes payment						15.5				
Treasury stock acquisitions									(25.0)	(627.7)
Translation adjustments (including taxes of $1.6)								(64.8)		
Common equity put options expiration										94.0
Stock option exercises and other (including tax benefits of $23.0)					42.1	2.2			5.1	35.1
Balance at December 31, 1993	11.4	677.3	830.3	92.3	256.7	(253.6)	7,612.6	(192.2)	(123.0)	(1,919.0)
Net income							**1,224.4**			
Common stock cash dividends ($.23 per share)							**(163.9)**			
Preferred stock cash dividends ($1.01 for Series B, $1.16 for Series C and $1.93 for Series E depositary share), (net of tax benefits of $3.7)							**(47.2)**			
Preferred stock conversion	**(.2)**	**(3.1)**			**.5**				**.2**	**2.6**
ESOP Notes payment						**17.5**				
Treasury stock acquisitions									**(17.6)**	**(499.8)**
Translation adjustments (including taxes of $50.8)								**77.3**		
Common equity put options issuance										**(54.6)**
Stock option exercises and other (including tax benefits of $20.3)					**28.8**	**1.7**			**3.8**	**27.1**
Balance at December 31, 1994	**11.2**	**$674.2**	**830.3**	**$92.3**	**$286.0**	**$(234.4)**	**$8,625.9**	**$(114.9)**	**(136.6)**	**$(2,443.7)**

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation Financial Comments

Summary of significant accounting policies

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 50% or less owned affiliates are carried at equity in the companies' net assets.

FOREIGN CURRENCY TRANSLATION

The functional currency of each operation outside of the U.S. is the respective local currency, except for hyperinflationary countries where it is the U.S. Dollar.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, with depreciation and amortization provided on the straight-line method over the following estimated useful lives: buildings—up to 40 years; leasehold improvements—lesser of useful lives of assets or lease terms including option periods; and equipment—3 to 12 years.

INTANGIBLE ASSETS

Intangible assets consist primarily of franchise rights reacquired from franchisees and affiliates, and are amortized on the straight-line method over an average life of 30 years.

ADVERTISING COSTS

In the fourth quarter of 1994, the Company adopted the American Institute of Certified Public Accountants' Statement of Position 93-7, Reporting on Advertising Costs. Under its provisions, the Company expenses production costs of radio and television ads as of the date the commercials are initially aired. As a result, the Company recorded a one-time, noncash $15.0 million charge to general, administrative and selling expenses in the fourth quarter. Advertising expenses included in costs of Company-operated restaurants and general, administrative and selling expenses were (in millions): 1994—$385.6; 1993—$353.8; 1992—$355.7.

FINANCIAL INSTRUMENTS

The Company utilizes derivatives in managing risk, but not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of long-term investments or intercompany loans in the corresponding currency. Foreign currency gains and losses on the hedges of long-term investments are recorded as foreign currency translation adjustment included in shareholders' equity. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating income (expense). Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. The Company also uses short-term forward foreign exchange contracts to hedge future foreign-denominated royalty cash flows and other payments received in the U.S. from foreign subsidiaries and affiliates. Gains and losses associated with these contracts are deferred and amortized over the twelve-month period being hedged.

The carrying amounts for cash and equivalents and notes receivable approximated fair value. For noninterest-bearing security deposits by franchisees, no fair value was provided as these deposits are an integral part of the overall franchise arrangements.

STATEMENT OF CASH FLOWS

The Company considers all highly liquid investments with short-term maturity dates to be cash equivalents. The impact of changing foreign currencies on cash and equivalents was not material.

Number of locations in operation

December 31,	**1994**	1993	1992	1991
Operated by franchisees	**9,982**	9,288	8,654	8,151
Operated under business facilities lease arrangements	**476**	544	583	584
Operated by the Company	**3,083**	2,699	2,551	2,547
Operated by 50% or less owned affiliates	**1,664**	1,462	1,305	1,136
Systemwide restaurants (excluding satellites)	**15,205**	13,993	13,093	12,418

Franchisees operating under business facilities lease arrangements have options to purchase the businesses. The results of operations of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale. In 1994, due to increased ownership, the Company consolidated affiliates in Taiwan, South Korea, Turkey and China, which increased total assets and liabilities by approximately $205.0 million.

December 31,	**1994**	1993
U.S.	**494**	114
Outside of the U.S.	**251**	56
Systemwide satellites	**745**	170

Satellite foodservice facilities are points of distribution which leverage the infrastructure of existing restaurants by using their storage capability and inventory, and by drawing on their management talent and labor pool.

Other operating (income) expense—net

(In millions of dollars)	**1994**	1993	1992
Gains on sales of restaurant businesses	**$(67.1)**	$(48.2)	$(43.1)
Equity in earnings of unconsolidated affiliates	**(47.0)**	(34.6)	(29.5)
Net losses from property dispositions	**20.0**	15.5	18.1
Other—net	**10.2**	5.3	(9.5)
Other operating (income) expense—net	**$(83.9)**	$(62.0)	$(64.0)

Gains on sales of restaurant businesses are recognized as income when the sales are consummated and other stipulated conditions are met. Proceeds from certain sales of restaurant businesses and property include notes receivable.

Income taxes

Income before provision for income taxes and the provision for income taxes, classified by source of income, were as follows:

(In millions of dollars)	**1994**	1993	1992
U.S.	**$1,046.4**	$ 986.0	$ 873.3
Outside of the U.S.	**840.2**	689.7	574.8
Income before provision for income taxes	**$1,886.6**	$1,675.7	$1,448.1
U.S.	**$ 396.2**	$ 391.9	$ 316.8
Outside of the U.S.	**266.0**	201.3	172.7
Provision for income taxes	**$ 662.2**	$ 593.2	$ 489.5

Income before provision for income taxes outside of the U.S. and the related provision for income taxes reflect fees received in the U.S. from operations outside of the U.S. Income before provision for income taxes in the U.S. and the related provision for income taxes reflect interest received in the U.S. from operations outside of the U.S.

The provision for income taxes, classified by the timing and location of payment, consisted of:

(In millions of dollars)	**1994**	1993	1992
Current			
U.S. federal	**$379.3**	$331.6	$256.8
U.S. state	**71.1**	62.0	56.3
Outside of the U.S.	**217.4**	147.2	154.0
	667.8	540.8	467.1
Deferred			
U.S. federal	**(21.2)**	21.9	(10.3)
U.S. state	**(3.0)**	3.4	4.0
Outside of the U.S.	**18.6**	27.1	28.7
	(5.6)	52.4	22.4
Provision for income taxes	**$662.2**	$593.2	$489.5

Included in the 1993 deferred tax provision were $14.0 million attributable to a one-time, noncash revaluation of deferred tax liabilities resulting from the increase in the statutory U.S. federal income tax rate.

Net deferred tax liabilities consisted of:

(In millions of dollars)	December 31, **1994**	1993
Property and equipment basis differences	**$ 852.8**	$786.1
Other	**178.3**	175.4
Total deferred tax liabilities	**1,031.1**	961.5
Deferred tax assets before valuation allowance *(1)*	**(274.7)**	(192.8)
Valuation allowance	**41.4**	44.5
Net deferred tax liabilities *(2)*	**$ 797.8**	$813.2

(1) Includes loss carryforwards (in millions): 1994–$45.1; 1993–$46.7.
(2) Net of assets recorded in current income taxes (in millions): 1994–$43.0; 1993–$22.1.

Reconciliations of the statutory U.S. federal income tax rates to the effective income tax rates were as follows:

	1994	1993	1992
Statutory U.S. federal income tax rates	**35.0%**	35.0%	34.0%
State income taxes, net of related federal income tax benefit	**2.3**	2.5	2.7
Other	**(2.2)**	(2.1)	(2.9)
Effective income tax rates	**35.1%**	35.4%	33.8%

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately $675.0 million at December 31, 1994, and consisted primarily of undistributed earnings which are considered to be permanently invested in the businesses. If these earnings were not considered permanently invested, no additional taxes would be provided due to the overall higher tax rates in markets outside of the U.S. and the ability to recover withholding taxes as foreign tax credits in the U.S.

Segment and geographic information

The Company operates exclusively in the foodservice industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. Operating income includes the Company's share of operating results of affiliates. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Fees received in the U.S. from subsidiaries outside of the U.S. were (in millions): 1994—$268.9; 1993—$202.8; 1992—$187.8.

(In millions of dollars)	**1994**	1993	1992
U.S.	**$ 4,155.5**	$ 3,931.2	$ 3,749.4
Europe/Africa/Middle East	**2,604.7**	2,235.9	2,187.0
Asia/Pacific	**730.7**	494.4	434.6
Canada	**546.1**	557.8	595.1
Latin America	**283.8**	188.8	167.2
Total revenues	**$ 8,320.8**	$ 7,408.1	$ 7,133.3
U.S.	**$ 1,130.5**	$ 1,087.1	$ 1,041.6
Europe/Africa/Middle East	**671.9**	547.5	484.0
Asia/Pacific	**242.9**	190.6	163.2
Canada	**116.8**	111.2	113.5
Latin America	**79.1**	47.6	59.3
Operating income	**$ 2,241.2**	$ 1,984.0	$ 1,861.6
U.S.	**$ 6,682.7**	$ 6,385.4	$ 6,410.6
Europe/Africa/Middle East	**4,257.5**	3,473.2	3,290.9
Asia/Pacific	**1,547.7**	1,103.2	980.3
Canada	**487.6**	562.5	587.4
Latin America	**616.4**	510.9	412.0
Total assets	**$13,591.9**	$12,035.2	$11,681.2

Property and equipment

(In millions of dollars)	December 31, **1994**	1993
Land	**$ 2,950.1**	$ 2,587.2
Buildings and improvements on owned land	**5,814.7**	5,209.4
Buildings and improvements on leased land	**4,211.2**	3,673.0
Equipment, signs and seating	**1,727.8**	1,545.4
Other	**480.8**	444.0
	15,184.6	13,459.0
Accumulated depreciation and amortization	**(3,856.2)**	(3,377.6)
Net property and equipment	**$11,328.4**	$10,081.4

Depreciation and amortization were (in millions): 1994—$550.5; 1993—$492.8; 1992—$492.9. Contractual obligations for the acquisition and construction of property amounted to $241.2 million at December 31, 1994.

Debt financing

LINE OF CREDIT AGREEMENTS

The Company has a line of credit agreement for $700.0 million, which remained unused at December 31, 1994, and which may be renewed on an annual basis unless the participating banks notify the Company four days prior to the renewal period. Prior to July 20, 1994, the agreement could not be terminated without 18 months notice and supported the classification of certain notes maturing within one year as long-term debt. Each borrowing under the current agreement bears interest at one of several specified floating rates to be selected by the Company at the time of borrowing. The agreement provides for fees of .07% per annum on the unused portion of the commitment. In addition, certain subsidiaries outside of the U.S. had unused lines of credit totaling $1.0 billion at December 31, 1994; these were principally short-term and denominated in various currencies at local market rates of interest. The weighted average interest rates of short-term borrowings, comprised of commercial paper and foreign-denominated bank line borrowings, were 6.8% and 8.1% at December 31, 1994, and 1993, respectively.

EXCHANGE AGREEMENTS

The Company has entered into agreements for the exchange of various currencies, certain of which also provide for the periodic exchange of interest payments. These agreements, as well as additional interest-rate exchange agreements, expire through 2003. The interest-rate exchange agreements had a notional amount with a U.S. Dollar equivalent of $1.3 billion at December 31, 1994, and were denominated primarily in U.S. Dollars, British Pounds Sterling, French Francs, Deutsche Marks and Japanese Yen. The net value of each exchange agreement was classified as an asset or liability based on its carrying amount, and any related interest income was netted against interest expense.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have a significant exposure to any individual counterparty, and has entered into master agreements that contain netting arrangements.

The Company also had short-term forward foreign exchange contracts outstanding at December 31, 1994, with a U.S. Dollar equivalent of $65.2 million in various currencies, primarily payable in French Francs, Deutsche Marks, British Pounds Sterling and Japanese Yen. The deferred loss related to the short-term hedging program was $1.7 million at December 31, 1994.

GUARANTEES

Included in total debt at December 31, 1994, were $159.5 million of 7.5% ESOP Notes Series A and $83.3 million of 7.2% ESOP Notes Series B issued by the Leveraged Employee Stock Ownership Plan (LESOP), with payments through 2004 and 2006, respectively, which are guaranteed by the Company. Interest rates on the notes were adjusted in 1994 due to refinancing of certain sinking fund payments. The Company has agreed to repurchase the notes upon the occurrence of certain events.

The Company also has guaranteed certain foreign affiliate loans totaling $66.9 million at December 31, 1994. The Company also was a general partner in 70 domestic partnerships with total assets of $287.0 million and total liabilities of $141.3 million at December 31, 1994.

FAIR VALUES

	December 31, 1994	
(In millions of dollars)	Carrying amount	Fair value
Liabilities		
Debt	$3,116.8	$3,050.9
Notes payable	1,046.9	1,046.9
Foreign currency exchange agreements	186.9	225.5
Interest-rate exchange agreements		35.6
Total liabilities	4,350.6	4,358.9
Assets		
Foreign currency exchange agreements	37.5	18.5
Net debt	$4,313.1	$4,340.4

The carrying amounts for short-term forward foreign exchange contracts approximated fair value at December 31, 1994. The fair value of the debt obligations (excluding capital leases) and of the currency and interest-rate exchange agreements was estimated using quoted market prices, various pricing models or discounted cash flow analyses. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of total assets was higher than their carrying value at December 31, 1994.

DEBT OBLIGATIONS

The Company has incurred debt obligations principally through various public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity,

either at par or at a premium over par. The following table summarizes these debt obligations, including the gross effects of currency and interest-rate exchange agreements:

		Interest rates *(1)* December 31		Amounts outstanding December 31		Aggregate maturities by currency for 1994 balances					
(In millions of U.S. Dollars)	Maturity dates	**1994**	1993	**1994**	1993	1995	1996	1997	1998	1999	Thereafter
Fixed—original issue		**8.2%**	8.5%	**$1,647.0**	$1,790.6						
Fixed—converted via exchange agreements *(2)*		**5.7**	5.6	**(1,483.6)**	(1,449.0)						
Floating		**4.5**	3.0	**167.3**	163.2						
Total U.S. Dollars	1995-2033			**330.7**	504.8	$ 644.9	$(363.1)	$ (72.4)	$(400.4)	$ 9.9	$ 511.8
Fixed		**8.3**	8.9	**527.2**	447.1						
Floating		**6.0**	6.7	**292.3**	168.6						
Total French Francs	1995-2003			**819.5**	615.7	150.3	59.6	56.6	93.8	138.6	320.6
Fixed		**6.4**	6.3	**440.7**	423.1						
Floating		**5.4**	6.9	**339.5**	116.7						
Total Deutsche Marks	1995-2007			**780.2**	539.8	168.0	138.5	116.2	259.6	32.3	65.6
Fixed		**10.4**	9.8	**464.9**	498.6						
Floating		**6.1**	5.4	**197.2**	178.0						
Total British Pounds Sterling	1995-2003			**662.1**	676.6	32.0	170.7	15.6	77.6	31.3	334.9
Fixed		**4.3**	4.3	**375.8**	357.7						
Floating		**2.0**		**135.5**							
Total Japanese Yen	1996-2023			**511.3**	357.7		210.8	100.4			200.1
Fixed		**11.1**	12.0	**113.3**	117.3						
Floating		**7.4**	5.0	**106.3**	61.0						
Total Australian Dollars	1995-2000			**219.6**	178.3	84.1	65.9	1.0	67.2	.9	.5
Fixed		**6.4**	7.7	**149.9**	71.7						
Floating		**5.7**	6.2	**26.6**	22.6						
Total Netherland Guilders	1995-1999			**176.5**	94.3	49.6			77.8	49.1	
Fixed		**11.8**	11.6	**114.5**	166.9						
Floating		**6.0**	4.5	**39.3**	50.3						
Total Canadian Dollars	1995-2021			**153.8**	217.2	80.6	71.5	.2	.2	.3	1.0
Fixed		**8.1**	8.6	**97.0**	118.4						
Floating		**6.4**	4.1	**37.6**	21.0						
Total Hong Kong Dollars	1995-2008			**134.6**	139.4	44.1	6.5	25.9	12.9	6.4	38.8
Fixed		**8.0**		**41.0**							
Floating		**8.2**		**69.6**							
Total New Taiwan Dollars *(3)*	1995-2001			**110.6**		22.4	26.6	17.0	13.2	8.6	22.8
Fixed		**7.5**	8.0	**289.5**	231.6						
Floating		**12.1**	13.6	**124.7**	48.5						
Total other currencies	1995-2016			**414.2**	280.1	135.5	47.6	4.8	99.3	48.5	78.5
Debt obligations including the net effects of currency and interest-rate exchange agreements				**4,313.1**	3,603.9	1,411.5	434.6	265.3	301.2	325.9	1,574.6
Net asset positions of currency exchange agreements (included in miscellaneous other assets)				**37.5**	108.8	3.7	12.5	.1	7.1	2.5	11.6
Total debt obligations				**$4,350.6**	$3,712.7	$1,415.2	$ 447.1	$265.4	$ 308.3	$328.4	$1,586.2

(1) Weighted average effective rate, computed on a semi-annual basis.

(2) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflected the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflected the gross effects of these and other exchange agreements.

(3) In 1994, due to an increase in ownership, the Company consolidated its Taiwan affiliate.

Other long-term liabilities and minority interests

(In millions of dollars)	December 31, **1994**	1993
Security deposits by franchisees	**$141.2**	$121.4
Preferred interests in consolidated subsidiaries	**162.4**	106.7
Minority interests in consolidated subsidiaries	**50.3**	38.2
Other	**68.9**	68.1
Other long-term liabilities and minority interests	**$422.8**	$334.4

A Company subsidiary issued 25 million British Pounds Sterling of 5.42% Series B Preferred Stock in 1994, and 50 million British Pounds Sterling of 5.91% Series A Preferred Stock in 1993. Unless redeemed at the Company's option, each series of preferred stock must be redeemed five years from the date of issuance. These combined preferred interests were valued at U.S. $117.4 million at December 31, 1994. Also, another subsidiary issued additional preferred stock

in 1994 and 1993. All of the preferred stock of this subsidiary has a dividend rate adjusted annually (7.5% at December 31, 1994) and is redeemable at the option of the holder at a current redemption price totaling $45.0 million. Each of these issues was reflected in preferred interests in consolidated subsidiaries.

Included in other was the $100.00 per share redemption value of 181,868 shares of 5% Series D Preferred Stock. This stock, which carries one vote per share, must be redeemed on the occurrence of specified events.

Leasing arrangements

At December 31, 1994, the Company was lessee at 2,553 locations under ground leases (the Company leases land and constructs and owns buildings) and at 3,268 locations under improved leases (lessor owns land and buildings). Land and building lease terms for most traditional restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and one or more five-year renewal options with certain leases providing purchase options. Most satellites operate under improved leases which are generally of a shorter term and include primarily percentage rent payments only. For most locations, the Company is obligated for the related occupancy costs which include property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under operating leases with initial terms of one year or more after December 31, 1994, are:

(In millions of dollars)	Restaurant	Other	Total
1995	$ 335.3	$ 39.8	$ 375.1
1996	330.6	36.5	367.1
1997	318.7	32.9	351.6
1998	301.7	28.6	330.3
1999	283.9	24.3	308.2
Thereafter	2,776.8	171.2	2,948.0
Total minimum payments	$4,347.0	$333.3	$4,680.3

Rent expense was (in millions): 1994—$394.4; 1993—$339.0; 1992—$320.2. Included in these amounts were percentage rents based on sales by the related restaurants in excess of minimum rents stipulated in certain lease agreements (in millions): 1994—$40.3; 1993—$29.0; 1992—$26.1.

Franchise arrangements

Franchise arrangements, with franchisees who operate throughout the U.S. and in most countries around the world, generally provide for initial fees and continuing payments to the Company based upon a percentage of sales, with minimum rent payments. Among other things, franchisees are provided the use of restaurant facilities, generally for a period of 20 years. They are required to pay related occupancy costs which include property taxes, insurance, maintenance and a refundable, noninterest-bearing security deposit. On a limited basis, the Company accepts notes from franchisees, which generally are secured by interests in restaurant equipment and franchises.

(In millions of dollars)	**1994**	1993	1992
Minimum rents			
Owned sites	**$ 633.4**	$ 573.6	$ 538.7
Leased sites	**446.0**	381.7	353.3
	1,079.4	955.3	892.0
Percentage fees	**1,411.8**	1,272.1	1,120.6
Initial fees	**37.0**	23.5	18.2
Revenues from franchised restaurants	**$2,528.2**	$2,250.9	$2,030.8

Future minimum payments to the Company, based on minimum rents specified under franchise arrangements, after December 31, 1994, are:

(In millions of dollars)	Owned sites	Leased sites	Total
1995	$ 721.7	$ 410.4	$ 1,132.1
1996	708.6	446.5	1,155.1
1997	693.0	444.8	1,137.8
1998	677.0	432.7	1,109.7
1999	662.3	421.0	1,083.3
Thereafter	6,368.1	4,029.9	10,398.0
Total minimum payments	$9,830.7	$6,185.3	$16,016.0

At December 31, 1994, net property and equipment under franchise arrangements totaled $6.6 billion (including land of $2.0 billion), after deducting accumulated depreciation and amortization of $1.9 billion.

Profit sharing program

The Company has a program for U.S. employees which includes profit sharing, 401(k) (McDESOP), and leveraged employee stock ownership features. Profit sharing assets can be invested in McDonald's common stock or among several other investment alternatives. McDESOP allows employees to invest in McDonald's common stock by making contributions which are partially matched by the Company. LESOP is invested in both McDonald's convertible preferred and common stock.

Staff, executives and restaurant managers share in profit sharing contributions; shares are released under the LESOP based on participants' compensation. The profit sharing contribution is discretionary, and the amount is determined by the Company each year. The LESOP contribution is based on the loan payments necessary to amortize the debt initially incurred to acquire the convertible preferred stock, some of which has been converted to common stock. Shares held by the LESOP are allocated to participants as the loan is repaid. Dividends on shares held by the LESOP are used to service the debt, and shares are released to participants in order to replace the dividends on shares that have been allocated to them. LESOP costs shown in the following table were based upon the cash paid for loan payments less these dividends.

(In millions of dollars)	**1994**	1993	1992
Profit sharing	**$16.1**	$13.5	$14.3
LESOP	**26.3**	25.5	19.6
McDESOP	**10.1**	8.1	4.9
U.S. program costs	**$52.5**	$47.1	$38.8

Assuming conversion of the preferred stock to common stock, at December 31, 1994, 4.4 million and 10.7 million shares would have been allocated and unallocated, respectively; no shares were committed to be released.

Certain subsidiaries outside of the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside of the U.S. were (in millions): 1994—$15.7; 1993—$13.0; 1992—$14.0.

The Company does not provide any other postretirement benefits, and postemployment benefits were immaterial.

Stock options

Under the 1992 Stock Ownership Incentive and the 1975 Stock Ownership Option Plans, options to purchase common stock are granted at prices not less than fair market value of the stock on date of grant. Substantially all of these options become exercisable in four equal biennial installments, commencing one year from date of grant, and expiring ten years from date of grant. At December 31, 1994, 79.0 million shares of common stock were reserved for issuance under both plans.

(In millions, except per common share data)	**1994**	1993	1992
Options outstanding at January 1	**55.1**	50.3	47.4
Options granted	**13.6**	12.0	11.6
Options exercised	**(4.1)**	(5.3)	(7.5)
Options forfeited	**(2.3)**	(1.9)	(1.2)
Options outstanding at December 31	**62.3**	55.1	50.3
Options exercisable at December 31	**21.4**	17.6	15.4
Common shares reserved for future grants at December 31	**16.7**	28.0	38.2
Option prices per common share			
Exercised during the year	**$5 to $26**	$4 to $24	$4 to $22
Outstanding at year end	**$7 to $30**	$5 to $28	$4 to $24

During the past several years, the Financial Accounting Standards Board has been considering the appropriate accounting for stock options, and in December 1994, decided to work towards improving disclosures about stock-based awards. Pending the resolution of this issue, the following table provides additional information regarding the Company's option program. The Company surveyed its institutional investors regarding the appropriate disclosures for stock-based awards, and the content contained herein reflects the information which they considered to be of value.

The potential dilution of common shares outstanding upon exercise of stock options represents the number of common shares issuable upon exercise less the number of common shares that could be repurchased with proceeds from the exercise based upon the respective December 31 prices of the Company's common stock. As such, this potential dilution was 1.6%, 1.8% and 1.7% at year-end 1994, 1993 and 1992, respectively. Options outstanding at December 31, 1994, had an average life of 7.4 years if held to their expiration date; options are generally exercised prior to their expiration date.

	1994	1993	1992
Common shares outstanding at year end, *in millions*	**693.7**	707.3	727.0
Potential dilution of common shares outstanding from option exercises	**11.4**	12.6	12.2
Average option exercise price	**$12.14**	$11.01	$ 9.68
Average cost of treasury stock issued for option exercises	**$ 7.05**	$ 6.65	$ 6.55

As shown above, the average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises because of the Company's practice of prefunding the program through share repurchase. As a result, stock option exercises have generated additional capital, as cash received from employees has exceeded the Company's average acquisition cost of treasury stock.

Options granted during each year were 1.9%, 1.7% and 1.6% of average common shares outstanding for 1994, 1993 and 1992, respectively. Stock options were granted to approximately 6,600, 5,800 and 5,700 employees in 1994, 1993 and 1992, respectively. Shares are issued from treasury stock to employees upon exercise of stock options.

Capital stock

STOCK SPLITS

On May 27, 1994, the Board of Directors approved two-for-one stock splits to be effected in the form of stock dividends to be distributed on June 24, 1994, to common and Series B and C Preferred shareholders of record as of June 7, 1994. All common and Series B and C ESOP Convertible Preferred Stock information appearing in the accompanying consolidated financial statements and Financial Comments has been restated to give retroactive effect to the stock splits, including the transfer of an appropriate amount to common stock from additional paid-in capital.

PER COMMON SHARE INFORMATION

Income used in the computation of per common share information was reduced by preferred stock cash dividends (net of tax) and divided by the weighted average shares of common stock outstanding during each year (in millions): 1994—701.8; 1993—711.8; 1992—726.5. The effect of potentially dilutive securities was not material.

PREFERRED STOCK

In December 1992, the Company issued $500.0 million of Series E 7.72% Cumulative Preferred Stock; 10,000 preferred shares are equivalent to 20.0 million depositary shares having a liquidation preference of $25.00 per depositary share. Each preferred share is entitled to one vote under certain circumstances and is redeemable at the option of the Company beginning on December 3, 1997, at its

liquidation preference plus accrued and unpaid dividends.

In September 1989 and April 1991, the Company sold $200.0 million of Series B and $100.0 million of Series C ESOP Convertible Preferred Stock to the LESOP. The LESOP financed the purchase by issuing notes which are guaranteed by the Company and are included in long-term debt, with an offsetting reduction in shareholders' equity. Each preferred share has a liquidation preference of $14.375 and $16.5625, respectively, and is convertible into a minimum of .7692 and .8 common share (conversion rate), respectively. Upon termination of employment, employees are guaranteed a minimum value payable in common shares equal to the greater of the conversion rate; the fair market value of their preferred shares; or the liquidation preference plus accrued dividends, not to exceed one common share. Each preferred share is entitled to one vote and currently is redeemable at the option of the Company. In 1992, 8.2 million Series B shares were converted into 6.4 million common shares.

COMMON EQUITY PUT OPTIONS

In June 1994, the Company sold 2.0 million common equity put options which were exercised in November 1994. During November and December 1994, the Company sold an additional 2.0 million common equity put options which expired unexercised in the first quarter of 1995. At December 31, 1994, the $56.2 million exercise price of these options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of premiums received.

In April 1993, the Company sold 1.0 million common equity put options which expired unexercised in July 1993. In December 1992, the Company sold 2.0 million common equity put options which expired unexercised in April 1993. At December 31, 1992, the $94.0 million exercise price of these options was classified in common equity put options and the related offset was recorded in common stock in treasury, net of premiums received.

SHAREHOLDER RIGHTS PLAN

In December 1988, the Company declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock. Under certain conditions, each Right may be exercised to purchase one four-hundredth of a share of Series A Junior Participating Preferred Stock (the economic equivalent of one common share) at an exercise price of $62.50 (which may be adjusted under certain circumstances), and is transferable apart from the common stock ten days following a public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares (which threshold may be reduced by the Board of Directors to as low as 10%), or ten business days following the commencement or announcement of an intention to make a tender or exchange offer resulting in beneficial ownership by a person or group exceeding the threshold.

Once the threshold has been exceeded, or if the Company is acquired in a merger or other business combination transaction, each Right will entitle the holder, other than such person or group, to purchase at the then current exercise price, stock of the Company or the acquiring company having a market value of twice the exercise price.

Each Right is nonvoting and expires on December 28, 1998, unless redeemed by the Company, at a price of $.0025, at any time prior to the public announcement that a person or group has exceeded the threshold. At December 31, 1994, 2.1 million shares of the Series A Junior Participating Preferred Stock were reserved for issuance under this plan.

Quarterly results (unaudited)

(In millions of dollars, except per common share data)	Quarters ended December 31		September 30		June 30		March 31	
	1994	1993	**1994**	1993	**1994**	1993	**1994**	1993
Systemwide sales	**$6,964.0**	$6,145.7	**$6,944.0**	$6,247.2	**$6,370.2**	$5,958.9	**$5,709.2**	$5,235.1
Revenues								
Sales by Company-operated restaurants	**$1,586.8**	$1,345.2	**$1,551.8**	$1,351.1	**$1,409.3**	$1,307.6	**$1,244.7**	$1,153.3
Revenues from franchised restaurants	**683.3**	586.7	**673.6**	593.2	**620.0**	570.2	**551.3**	500.8
Total revenues	**2,270.1**	1,931.9	**2,225.4**	1,944.3	**2,029.3**	1,877.8	**1,796.0**	1,654.1
Operating costs and expenses								
Company-operated restaurants	**1,267.7**	1,085.3	**1,231.3**	1,076.9	**1,128.6**	1,049.5	**1,017.4**	952.9
Franchised restaurants	**117.8**	100.3	**111.7**	95.7	**105.6**	93.6	**100.4**	90.8
General, administrative and selling expenses	**309.4**	256.2	**277.1**	234.6	**257.0**	232.5	**239.5**	217.8
Other operating (income) expense—net	**(0.6)**	3.5	**(32.6)**	(31.1)	**(30.3)**	(15.6)	**(20.4)**	(18.8)
Total operating costs and expenses	**1,694.3**	1,445.3	**1,587.5**	1,376.1	**1,460.9**	1,360.0	**1,336.9**	1,242.7
Operating income	**575.8**	486.6	**637.9**	568.2	**568.4**	517.8	**459.1**	411.4
Interest expense	**80.1**	78.7	**80.2**	75.7	**73.6**	82.4	**71.8**	79.3
Nonoperating income (expense)—net	**(24.1)**	(4.9)	**(16.6)**	7.2	**1.7**	4.3	**(9.9)**	1.2
Income before provision for income taxes	**471.6**	403.0	**541.1**	499.7	**496.5**	439.7	**377.4**	333.3
Provision for income taxes	**162.7**	138.5	**191.3**	188.8	**174.2**	150.9	**134.0**	115.0
Net income	**$ 308.9**	$ 264.5	**$ 349.8**	$ 310.9	**$ 322.3**	$ 288.8	**$ 243.4**	$ 218.3
Net income per common share	**$ .43**	$ .36	**$ .48**	$ .42	**$ .44**	$ .39	**$ .33**	$ .29
Dividends per common share	**$ .06**	$ .05⅜	**$ .06**	$ .05⅜	**$ .06**	$ .05⅜	**$ .05⅜**	$ .05

Forty Years Of Food, Folks And Fun

Hard to believe it's been forty years since Ray Kroc opened his first McDonald's. Back in 1955, television was in its infancy; the Brooklyn Dodgers won the World Series; Ike was President; and the number one song was "Shake, Rattle, and Roll".

Though many things have changed, you can still count on McDonald's for the same unique experience of Food, Folks and Fun as always. Help us celebrate our fortieth anniversary by testing your knowledge about McDonald's milestones through the years:

1955 Where did Ray Kroc open his first McDonald's?

1956 Kroc hires Fred Turner as a grillman. What's Turner's current position?

1957 We adopt our QSC motto. What does that stand for?

1958 We serve our 100 millionth hamburger. What burger milestone did we pass in 1994?

1959 McDonald's begins billboard advertising. What's the name of our original mascot?

1960 We sell our 400 millionth hamburger, still at its original 15-cent price. What would today's 59-cent burger cost, adjusted for inflation?

1961 Kroc buys the McDonald brothers' interest. What were their first names?

1962 Our slogan is, "Go for the Goodness at McDonald's." What publication carries our first national ad?

1963 Ronald McDonald makes his debut in Washington, DC. Who plays the first Ronald?

1964 We introduce a new sandwich invented by operator Lou Groen. What was it?

1965 Our stock is first sold to the public, at what offering price?

1966 We're listed on the New York Stock Exchange under what ticker symbol?

1967 The first McDonald's All-American High School Band is featured in what national event?

1968 We introduce the Big Mac. What are its ingredients and who invented it?

1969 We form the International Division. We're in the U.S., Puerto Rico, and what third country?

1970 What state became the 50th to join the System?

1971 Our first Playland is opened in which state?

1972 Ray Kroc turns 75 and receives the Horatio Alger Award. What's Ray's middle name?

1973 McDonald's is on the cover of *Time* magazine. What big new burger did we introduce?

1974 The first Ronald McDonald House opens in what city?

1975 What service did Sierra Vista, Arizona debut that accounts for about half of our U.S. business today?

1976 We officially sponsor our first Olympic Games. What city hosted the contest?

1977 We roll out breakfast on our national menu. What was the flagship product and who invented it?

1978 We open our 5,000th restaurant in what country?

1979 Mike Quinlan joins the board of directors, which he leads as chairman today. What was his first McDonald's position?

1980 International sales top $1 billion. Which country had the first $4 million annual sales restaurant?

1981 The first Ronald McDonald House outside of the U.S. opens in what city?

1982 Our stock is listed outside North America for the first time in what country?

1983 What popular nonburger item do we add to our menu?

1984 Ray Kroc dies. What charitable foundation is established in his memory?

1985 What prestigious industry group does our stock join?

1986 Jack Love writes the definitive history of the Company. What was its title?

1987 Our 30,000th student graduates from Hamburger University. Where was it originally located?

1988 We open our 10,000th restaurant in Dale City. What state is that in?

1989 Ray Kroc's widow donates $5 million to the charitable institution created in 1984. What's her name?

1990 What does McDonald's begin cooking french fries in?

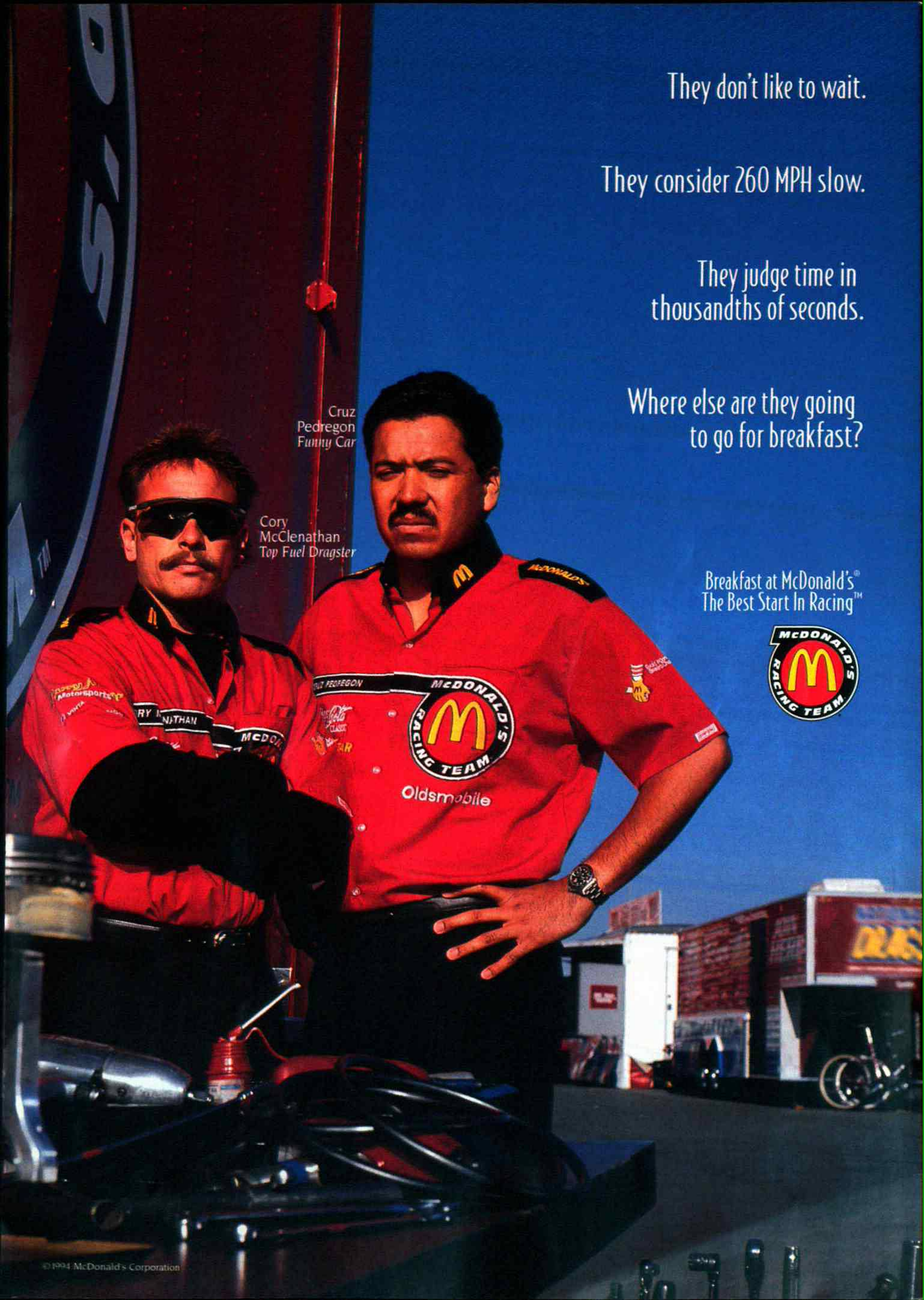
1991 We announce a comprehensive Waste Reduction Action Plan with what environmental partner?

1992 We begin service on a railroad train in what country?

1993 We serve a million meals during Denver's World Youth Day fete. What two world leaders drew the crowds?

1994 What financial result reached $26 billion?

Answers on page 24.



They don't like to wait.
They consider 260 MPH slow.
They judge time in thousandths of seconds.
Where else are they going to go for breakfast?
Cruz Pedregon Funny Car
Cory McClenathan Top Fuel Dragster
Breakfast at McDonald's® The Best Start In Racing™
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